

TECHNOPOLIS



Study: “Effects of counterfeiting on EU SMEs and a review of various public and private IPR enforcement initiatives and resources”

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FINAL REPORT

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The usual disclaimer applies and possible remaining errors are the sole responsibility of the study team.

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Executive summary

Study objectives

The overall mandate of this study was to find out what has been done to accompany small and medium sized enterprises (SMEs) in the fight against intellectual property infringements across the EU27 Member States and two Candidate Countries (Croatia and Turkey), and what could be done to improve the existing mechanisms.

More specifically, the main objectives of the study can be summarised as follows:

- Examine the problem of counterfeiting and other IPR abuses faced by SMEs.
- Analyse SMEs' responses to direct and indirect IPR abuses, their attitudes to IPR protection and the strategies SMEs adopt to achieve enforcement or to protect products at company level.
- Review and assess various public and private IPR enforcement initiatives, including on-the-spot enforcement networks in China.
- Establish an inventory of public and private IPR enforcement initiative and schemes.
- Provide a set of recommendations based on good practice derived from all the components of the study.

One of the distinguishing features of this study compared with other projects is the focus on four of the sectors particularly affected by IPR abuse, including auto parts, mechanical engineering, textiles, and toys.

The study was based on the following approach:

The first phase of the study aimed to make an inventory of existing material and prepare literature review. Building on available literature face to face interviews with EU level associations representing the sectors concerned were carried out.

In addition to the literature review, the design of survey questionnaires has been one of the study team major tasks during the inception phase. As a result, two questionnaires were prepared i.e. one addressed to SMEs and the other to the national sectoral association.

The next phase of the study concerned the review and assessment of various public and private initiatives aimed to support SMEs in the fight against IPR abuses. This assignment was completed by a network of country experts under the guidance of the study core team members.

Moreover, interviews with China practitioners engaged in fighting counterfeiting within China were conducted.

Following the analysis of the two surveys, the most interesting initiatives were subject to more detailed analysis based on in-depth interviews.

The study also analysed US and Japanese government policy initiatives against IPR infringements and private industry initiatives.

Last but not least, telephone interviews with a selection of enterprises with significant experience in facing and dealing with counterfeiting were conducted.

The major findings of the study can be summarised as follows:

Extent of the problem

While there are many ways of measuring the magnitude of the problem, none is reliable precisely because counterfeiting is an illegal activity. The results of this study confirm that infringement of intellectual property rights is a major problem for European companies, especially SMEs. Four out of five companies respondents to the survey were significantly concerned about IP right abuse and three quarters have been affected by it.

Impacts of infringements

In spite of problems with quantifying the extent of intellectual property infringements, it is clear that the theft of intellectual property has negative impact on European companies. 23% of SME survey respondents considered that their business was affected significantly and a growing proportion felt that the problem was likely to get worse in the next five years. The effect on the workforce stemming from loss of business due to IPR abuse mirrors the reported loss of sales, with about 20% of SME survey respondents estimating that the loss of jobs had been 5% or more during the previous financial year. Also, the good name of a product is damaged by the presence of counterfeit items in the marketplace. However, such damage done to the reputation of a business is generally impossible to quantify.

Stifling innovation capacities

Counterfeiting tends to have a negative impact on innovation activities since manufacturers are cautious about investing in R&D, being concerned that counterfeiting will not allow the manufacturer of the

original products to capitalise on its original investment. The SME survey found that about a quarter of respondents' decisions to invest in R&D or production were adversely influenced by considerations of IPR abuses.

SME perspective

Large companies may find it possible to overcome the impacts of IPR abuse, however, the problem of these potential impacts is far greater for SMEs, which lack resources to secure effective protection and enforcement of their IPR.

It is also important to note that few of the small businesses doing business overseas appreciate that patents or trade marks provide protection only in home markets and are not valid for China.

Geographical considerations

There is a widely-held belief that China is the largest source of IPR abuse. The SME Survey supports this view, with 41% of respondents reporting that, as a sales market, China was most affected by counterfeit goods and 56% saying that China was the main source of counterfeits.

It is reassuring to note that, according to the China practitioners, while the abuse of intellectual property is a major problem, it is set to diminish as China adapts to international commercial norms.

This is due to the fact that Chinese enforcement bodies are conducting more and more actions, the legal systems is more and more in line with international standards, judges are more educated and trained on IPR issues, and Government is taking actions in the right direction to intensify the fight.

While China has repeatedly appeared at the top list of countries producing the sheer size of counterfeit products, it is important to remember that the problem of intellectual property rights abuse is not limited to China. The SME survey showed that after China, the greatest sources of infringement were found to be the EU countries (44% of respondents).

Finding solutions

The proper registration of intellectual property is, of course, the only way of ensuring that a rights holder can institute an action. It has been estimated that up to 80% of EU SMEs fail to register their patentable rights. The familiar argument, which is usually evoked, is that SMEs cannot afford to employ lawyers to represent them in the courts. Yet companies can help themselves to avoid or confront IPR problems by understanding the nature of intellectual property rights and the forms of protection available to them.

In addition to judicial and administrative actions, companies can use a range of strategies and measures that provide with alternative methods of defending intellectual property. These are described in detail in the report. Nonetheless, it is essential that intellectual property should be registered. Without such registration taking any legal action will be impossible. It also demonstrates that the rights owner values the IP and it therefore has a protective effect that will deter some infringers.

Thus, companies have several options for action ranging from checking the effectiveness of the business's existing portfolio through trailing risky markets with older technologies to introducing regular changes to the product and its packaging, and many others.

Interestingly, the SME survey showed that most companies taking action against infringers did so by means of civil or private actions. Almost 40% of all respondents favoured this form of procedure, while about a fifth reported that they had chosen to take no action and a slightly smaller percentage had been involved in criminal actions in defence of their IPR.

When asked about their preferences in the context of the various types of self-help or alternative measures, very few companies (15%) made regular audits of the registration of their rights and fewer than one in ten was able to make use of an in-house legal team. In addition, a small proportion (10% or fewer) made use of measures including withholding sensitive technologies from high-risk markets, performing due diligence checks and trying out risky markets by using older technologies.

SME support measures

Judging from the evidence collected for this study, it is clear that the programmes organised by governments tend to be awareness-raising initiatives rather than measures directed at assisting SMEs. Where public initiatives are insufficient, business organisations play an important role in filling this gap.

Two countries, France and Germany, seem to take a leading role in initiatives to help SMEs resist counterfeiting and other IPR abuses. Within the EU12 (new members since 2004) Member States progress in designing appropriate policy responses needs to be stepped up although these countries (as well as Croatia and Turkey) have made a start in addressing and solving problems relating to IPR protection.

Overall it is disappointing to note that there was little evidence that SMEs are aware of the various initiatives on offer. One in five company respondents said that they were wholly unaware of any such programmes.

Recommendations

The study recommends that there should be a fundamental change in public and corporate attitudes towards IPR protection and enforcement within the EU, informing and influencing the design of future initiatives aimed at helping SMEs.

The following elements are needed:

- A public 'zero tolerance' approach towards IPR infringement so that it becomes as unacceptable for an individual to purchase a counterfeit consumer product as for his or her business to infringe another company's IP rights.
- A wake-up call to persuade SMEs that it is possible to resist IPR infringements in worldwide markets and at home and that much of the effort required should come from within the organisation.
- A campaign to raise companies' expectations as to the level of assistance they should expect from within their own sector, country or the EU by publicising examples of best practice.

It is also necessary to put in place support measures targeted in particular at SMEs.

Based on examples identified in this study, the following initiatives seem worthy of further consideration for wider adoption within EU countries:

- Reduction of Community Trade Mark registration fees for SMEs.
- Lobby for the introduction of a Community Patent, along the same

lines as the Community Trade Mark and Design.

- The use of country-specific advertising campaigns, as in the recent French advertising campaigns.
- Assistance to SMEs that currently make no use, or inadequate use, of IP protection measures such as the French Pre-diagnosis initiative.
- Databank of original products, as in the Italian FALSTAFF initiative.
- Development of IPR training programmes for SMEs similar to those developed in the US.
- The establishment of 'help-desk' allowing companies to obtain first hand information from government specialist on IPR ready to assist them by phone, as the US toll-free hotline.
- The introduction of court costs insurance schemes, similar to the instrument based on public-private partnership.
- The UK's 'China Enforcement Roadmap' initiative.

Irrespective of such initiatives, it is also important to note that companies should be encouraged to adopt self-help measures and not expect to rely mainly on external assistance in achieving the protection of their intellectual property.

The 'help desk' initiatives planned by the EU in China are to be encouraged and fully supported. Finally, further support should be given to SMES, providing direct financial assistance to protect their rights in countries such as China, India and Russia.

1 Introduction

1.1 The context of the study

Technopolis was appointed in November 2006 by the Directorate-General for Enterprise and Industry of the European Commission to carry out a study to support the development of policy initiatives aimed at assisting the EU's small and medium enterprises (SMEs) to combat counterfeiting and other intellectual property rights (IPR) abuses. The study was aimed at helping DG Enterprise to develop a set of recommendations to be examined by the European Commission and proposed to national authorities.

Apart from its focus on the problems viewed from an SME perspective, a distinguishing feature of this study, compared with past projects, is the spotlight on four of the sectors (auto parts, mechanical engineering, textiles, and toys), particularly affected by IPR abuse.

1.2 Scope

The tasks set for the study can be summarised as:

1. Examining the problem of counterfeiting and other IPR abuses faced by SMEs.
2. Analysing SMEs' responses to direct and indirect IPR abuses, their attitudes to IPR protection and the strategies SMEs adopt to achieve enforcement or to protect products at company level.
3. Reviewing and assessing various public and private IPR enforcement initiatives, including on-the-spot enforcement networks in China.
4. Establishing an inventory of public and private IPR enforcement initiative and schemes.
5. Providing a set of recommendations based on good practice derived from all the components of the study.

1.3 Geographic coverage

The study sought information from respondents in the 27 Member States of the European Union plus the two Candidate Countries, Croatia and Turkey, as well as in the USA, Japan and China. In terms of questions asked relating to the origin of counterfeit goods, the study's geographic range was unlimited. The elements of the study examining on-the-spot enforcement networks focus exclusively on practice in China.

1.4 Sources

The principal contributions to the study came from the following sources:

- An online survey of SMEs throughout the EU (referred to as 'SME Survey' in this report; analysed in Appendix A).

- An online survey of EU sectoral and business associations representing automotive parts, mechanical engineering, textiles and toys ('Sectoral Survey'; analysed in Appendix A).
- Research of previous studies related to IPR, including those from the EU, OECD and the four sectors on which this study focuses, referred to by the title of the study (see Appendix B).
- Interviews with IPR practitioners based in China concerning on-the-spot enforcement networks and general IPR issues ('Practitioners'; report in Appendix C).
- Contributions on the IPR legal framework (see Appendix D).
- Information received from the USA and Japan about official and private sector initiatives set up to cope with IPR infringement (see Appendix E).
- Company and Initiative good practice provided by consultants retained as advisers to the study (see Appendix F).
- Inventory of initiatives (see Appendix G)¹.

1.5 Definitions

The term 'counterfeiting' is widely used in relation to patent, industrial design or trade mark infringement affecting manufactured items. However the scope of this study has been broadened to cover other types of IPR infringement such as those affecting services and confidentiality, so as to reflect the day-to-day experience of SMEs in the EU.

'China' is used throughout to indicate the mainland of The People's Republic of China. Taiwan (and to a large extent, Hong Kong and Macau) are excluded from consideration in this report.

1.6 Organisation of the report

This report is organised as follows:

- **Chapter 2 Defining the problems**, evaluates the effects of IPR abuse in terms of EU SMEs.
- **Chapter 3 Finding solutions**, discusses the methods used for protecting and enforcing IPR in the EU and world markets and gives advice on good practice.
- **Chapter 4 Obtaining Assistance**, reviews sources of assistance available to EU companies and discusses various national and international initiatives.
- **Chapter 5** presents the study's conclusions and recommendations.

Findings from the **Surveys** (described in 'Sources' above) constitute the key element on which this study is based. Statistics and opinions obtained from survey respondents are examined and discussed throughout this report within the relevant chapters according to their subject. The survey results are also set out and analysed separately in Appendix A: Analysis of Surveys. The other **Appendices** contain further information on intellectual property law, the findings from interviews with China practitioners and SMEs, as well as case studies of IPR initiatives.

¹ Full inventory is presented in a separate document, as annex to the main report. Appendix G includes a list of initiatives collected.

2 Defining the Problems

2.1 Introduction

Counterfeiting represents a major part of the infringement of IPR affecting EU SMEs. The results of the SME Survey undertaken in the scope of this study found that the most of IPR infringements concern design, trade marks and patents. For those infringements, the percentage of respondents was respectively 44%, 28% and 27%. In comparison, only 6% of respondents claimed that infringements concerned other IPR. While there are many ways of measuring the problem, none is reliable.

For example, the relationship between seizures by customs & excise authorities and the true extent of counterfeits present in EU markets will depend, in part, on the amount of resource allocated and the effectiveness of these resources. And cross-border seizures are only part of the picture since some of the goods that escape capture at the border will enter the economy while other, domestically-produced counterfeits may be sold at home without crossing any borders. Meanwhile the familiar problems of distinguishing between fakes and genuine items, and between legitimate and parallel-traded goods also serve to confuse.

Basing statistics on the number of court cases gives another perspective but, again, is highly imprecise. The proportion of cases reaching trial tends to be small compared with the number of actions initiated, while the degree of litigiousness varies from country to country (Bosworth, 2006a), making comparisons between nations unsound.

It is not surprising that a recent OECD study on counterfeiting and piracy (OECD, 2007) acknowledges that the overall degree of counterfeiting and piracy remains unknown and unknowable. According to the latest available data cited by the report, counterfeit and pirated items traded internationally amount to about US\$176 billion. This represents about 2% of world trade in terms of goods imports and exports. Customs data on seizures provided the key evidence for the OECD report, which notes: *“Unfortunately, the number of governments providing information was limited, [and] completeness of the responses patchy, so we can only have an extremely crude indicator of the role of counterfeit and pirated products in international trade”* (OECD, 2007).

2.2 Extent of concerns

As expected, a large majority of companies (83% in the SME Survey) find IPR abuse to be of significant concern, with three-quarters of the survey respondents stating that their own products or services have been affected. In terms of types of product, the largest category amongst the companies questioned in the SME Survey was for final mass products, as opposed to spare parts, components and other categories.

The China Practitioners were asked to characterise the problem of the abuse of intellectual property in China. Most felt it to be a major problem, especially for investors, but that it is diminishing — if not as fast as people would like. There was no continuity as to whether this is more of a big company, or small company, problem. They felt the central government authorities were taking the problem seriously, but less so in the provinces.

2.3 Impacts of infringement

Even if the extent of IPR infringements including counterfeiting are hard to quantify, the consequences for individual businesses and others are well known (Bosworth, 2006a). These effects are grouped under the following headings:

2.3.1 Loss of business

The trend for lost sales resulting from customers purchasing counterfeit items, either deliberately or unwittingly, rather than the genuine articles, appears to be increasing. Infringers, without the burdens of development, advertising and other overheads, may be able to bring their product to the market fast and severely undercut the owner of rights to the genuine item.

23% of SME Survey respondents considered that their business was affected significantly by infringements and a growing proportion felt that the problem was likely to get worse in the next five years. The mechanical engineering sector found that 30% of German companies suffered losses of 5% or more due to counterfeiting (VDMA, 2006), while in the SME Survey just over one-fifth of companies reported that the loss of sales had been greater than 10%.

In Italy it has been estimated that counterfeiting causes losses of between €5bn - €7bn pa to the economy as a whole, of which 60% is said to be from the textile and clothing sector alone, according to the Sectoral Survey.

According to a Spanish study of the toys industry, counterfeiting was responsible for lost sales of almost 11% in Spanish companies, rising to just below 50% amongst a group of very small companies (Miguel Hernandez University, 2003). This demonstrates that, in extreme cases, the loss of the intellectual property on which a business depends may call into question the viability of the company as a whole.

In addition to the more familiar forms of infringement, the abuse of business confidentiality may play a large part in the loss of business, including the inability of a company to earn revenue through royalties. In this case the form of infringement may be the leaking of trade secrets — perhaps in the form of confidential information, drawings or tooling, or by word of mouth — to counterfeiters. As is often the case in IPR abuse, there is a fine line between counterfeiting and corruption.

2.3.2 Loss of employment

The effect on the workforce stemming from loss of business due to IPR abuse mirrors the reported loss of sales, with about 20% of SME Survey respondents estimating that the loss of jobs had been 5% or more during the previous financial year. SMEs' ability to retain staff may be affected in home or overseas markets.

2.3.3 Damage to reputation and image

The good name of a product is damaged by the presence of counterfeit items in the marketplace. In the case of safety- or health-critical products (such as

pharmaceuticals) knowledge that fake products exist, and an inability to distinguish them from real products, may mean that both are avoided in favour of a more reliable competitor item. Thus counterfeit items can have a negative impact on the image of a product itself, as well as on the reputation of the company that developed and distributes it – and the good name of the country or region concerned may also suffer if it acquires a reputation as a source of counterfeits.

2.3.4 Risks to health and safety

Problems of this kind are frequent, in products ranging from medicines to automotive parts. The toys sector noted (Toy Industries of Europe, 2006) that counterfeit products may not comply with basic safety standards and may contain small parts, toxic substances or be made from hazardous materials.

This was borne out by 44% of toy manufacturers who took part in the SME Survey and 25% of companies from the mechanical engineering sector, who reported that they were concerned about the counterfeiting of their products posing risks to consumers.

2.3.5 Loss of tax revenues

Taxation may be lost to the country or region in which the abuse occurs, whereas counterfeiters seldom pay tax. The counterfeiting ‘sector’ operates as a black market so losses are experienced at every stage — from corporate profits taxes unpaid by the manufacturer to value-added taxes uncollected when items are purchased.

The scale of such losses is hard to quantify but it is undoubtedly huge; for example, in the textile and clothing sector alone, EU customs seized more than 30 million counterfeit goods in 2006 (Taxud, 2007). The figure for counterfeits not seized and traded on the black market is likely to be many times greater.

2.3.6 Stifling of innovation, entrepreneurship and business initiatives

Counterfeiting tends to have a negative impact on innovation activities since manufacturers are cautious about investing in R&D, being concerned that counterfeiting will not allow the manufacturer of the original products to capitalise on its original investment.

Many companies are deterred from participating in normal business activities including exhibiting at trade fairs, establishing local manufacture or even entering new markets because they assess the risks from IPR abuse to be either too high or unquantifiable. A rights holder may deem that the market is too risky for the introduction of its new technology. This deters honest entrepreneurs from investing in product and market development, especially in knowledge-based industries.

The SME Survey found that about a quarter of respondents’ decisions to invest in R&D or production were adversely influenced by considerations of IPR abuses. In the mechanical engineering, automotive parts and toys sectors the figure rose to one third of companies. However the China Practitioners warn against overreacting,

leading to a failure to address opportunities in the China market. They feel that there is less reason for companies to be deterred from coming to the market than there was a few years ago.

In relation to decisions about setting up production in countries where IPR abuses originate, a third of automotive parts companies said the presence of infringement would affect their choices.

2.3.7 Infrastructural leaking of IP

A common complaint from all sides concerns mistrust of certification procedures, especially in China. The China Compulsory Certification (CCC) scheme is frequently cited as demanding an unreasonable level of detail, including drawings and answers to exhaustive technical questions, with the suspicion that the intellectual property revealed in the applications process is not protected — amounting to an ‘unwanted transfer of technology’. The accreditation of European testing laboratories by the Chinese authorities might offer a solution (Orgalime, 2006a).

2.3.8 Foreign or local problem in overseas markets?

EU companies are advised to consider IPR problems in the context of their local markets rather than regarding them purely as a ‘foreigner’s concern’. For example, in China more than 90% of litigation is now brought by Chinese against Chinese, while local tastes are changing in this dynamic market, to the extent that the ownership of fake products is now regarded by many as a ‘loss of face’ (China Practitioners).

2.3.9 The small company perspective

Well-resourced companies may find it possible to overcome the impacts of IPR abuse such as those mentioned above. They may be in a position to make good preparations, take excellent advice, enact text-book enforcement measures and use influence in the marketplace. For example bringing high-profile cases against infringers will probably have a deterrent effect, while companies with multiple product lines may be able to select less vulnerable products to introduce into risky markets. However the problem of these potential impacts is far greater for SMEs, which are invariably less well resourced.

Barriers for SMEs are not confined to the difficult conditions to be found in remote markets. A number of EU regulations concerning IPR enforcement measures set high financial barriers for smaller companies, for instance the requirement for applications for customs action to be translated into all the EU customs languages. It is important to note that some EU customs accept to have the application filed in English, while France and Greece request the submission of this application in their own language.

Certain measures described in this study will appeal particularly to smaller companies which are unable to find redress through conventional, and often costly, means. For example the continual introduction of incremental innovations to a product or service may prove to be an effective defence against a counterfeiter by making the activity prohibitively expensive (however continual innovation tends to

be inherently costly for the rights holder too). Other SMEs prefer to ignore the dangers, planning to 'risk abuse for a fast buck' or 'make my money before the pirates catch up' (China-Britain Business Council, 2004).

Nonetheless the problem for SMEs remains acute. Small, entrepreneurial businesses urged by national governments to explore distant markets are particularly vulnerable and need considerable support and practical help from a whole spectrum of methods (discussed in Chapter 3) and sources of assistance (Chapter 4).

2.4 Geographical extent

There is a widely-held belief that China is the largest source of IPR abuse. The SME Survey supports this view, with 41% of respondents reporting that, as a sales market, China was most affected by counterfeit goods and 56% saying that China was the main source of counterfeits.

After China, the greatest sources of infringement were found to be other EU countries and the respondents' home markets. These were followed (in order) by Turkey, other Asian countries and India. In terms of sales markets affected, Africa, North America and Russia were perceived to be equal at around 11%.

2.5 Legal and enforcement problems

The SME Survey and the Sectoral Survey, as well as research into previous studies and the interviews with the China Practitioners, all showed that there is considerable room for improvement in IPR protection. The emphasis tended to be more on deficient enforcement than on shortcomings with legal frameworks, though the BASCAP Global Survey on Counterfeiting and Piracy (2007) found that, in 50% of the countries in which survey respondents operated, legislation was inadequate for the proper prosecution of IP infringements. The survey also found that 63% of these countries did not adequately resource law enforcement agencies to combat piracy and counterfeiting (International Chamber of Commerce, 2007).

Meanwhile representatives on all sides and from all sources reported that attempting to respond to the sheer volume of IP abuse, whether involving trade marks, patents, designs or unfair competition, made dealing with such problems an every-day matter that drains resources and wastes time.

China came in for special mention because of the speed, intensity and systematic and structured nature of the abuse experienced in that market. Some respondents admitted to 'giving up the battle', having been overwhelmed by the volume of the abuse, while others prefer to try to ignore the presence of counterfeits (for instance, in the toys sector).

Particular legal and enforcement problems mentioned during the course of the study are mentioned below.

2.5.1 Registering IP rights

The proper registration of intellectual property is, of course, the only way of ensuring that a rights holder can institute an action. It has been estimated that up to 80% of EU SMEs fail to register their patentable rights (patents being a type of right for which statistics are available), while the SME Survey showed that some 22% of respondents filed their patents in China.

2.5.2 Design rights

Especially in the textile and clothing sector, with the short life of most design, the length of the time taken to grant design rights (notably in China) makes it impractical for many companies to register their designs. However this problem is not confined to overseas markets: the sheer number of comparatively short-lived products makes this an inherent problem in this and related sectors.

2.5.3 Parasitic copies

The toys sector reports the prevalence of 'parasitic' or 'look-alike' copies of products that come close to the originals in appearance but do not necessarily infringe IPR. This is a practical, if not strictly a legal, problem.

2.5.4 Understanding local authorities' responsibilities

There is a particular problem in China, with its dual enforcement system, in understanding which legal or civic authorities to approach. Better guidance, in the form of guidelines or even a hot line, is needed to help foreign companies operating there (China Practitioners).

3 Finding Solutions

3.1 Introduction

Having defined the problems of IPR abuse in Chapter 2, this chapter addresses the subject of how companies can help themselves to avoid or confront IPR problems by understanding the nature of intellectual property rights and the forms of protection available to them.

The sections in this chapter are organised as follows:

- In section 3.2 the various forms of IP rights are discussed, both in principle and in detail. This provides a foundation for the explanation of the various forms of action which rights holders can take.
- The next section, 3.3, outlines the options for investigating problems and taking judicial and administrative action against infringers.
- Various forms of alternative protection are described in 3.4, mainly self-help measures which companies can adopt to defend their IPR without the need for formal action.
- Information and advice relating to forms of IP protection and legal/administrative action encountered in the surveys, consultation and research for this study are set out in section 3.5.

3.2 Existing types of IPR protection

The four main types of IP protection are trade marks, patents, designs and copyright. However IP is much broader, extending to geographical indications, plant varieties, semiconductor topographies and unfair competition/passing off.

An understanding of the following preliminary concepts is essential in appreciating the context of these rights.

3.2.1 Territoriality

Most IP rights are territorial, meaning that they have to be dealt with distinctly and specifically approved in each new territory. It is important to note that only few small businesses that do business overseas know that patent or trade mark registration provides protection only in country where it is registered and not everywhere automatically (for instance a trademark registered in UK only will not give rights in China).

Copyright is the only IP right that is automatically recognised worldwide.

In all EU countries, except for copyright, IP rights may be protected through both national and supranational titles.

3.2.2 Restrictive exclusive rights

Registered IP rights provide their owner with exclusive rights. However, they are restricted in their duration and each right has its own restriction.

For instance, patents last for 20 years, while copyright lasts for 70 years after the death of the author. Trade marks can be extended for an unlimited period provided payment of a renewal fee is made every 10 years and that the trade mark is used. Designs can potentially last for as long as 25 years, based on five-year periods.

3.2.3 Required formalities for IP protection

It will usually be impossible to protect IP and gain IP rights unless they have been applied for and granted; however some forms of IP protection, such as copyright, arise automatically without any registration as soon as there is a record in some form of what has been created.

3.2.4 Overlapping rights

A range of IP rights can be used to protect the same products or services. For example, a product can have patents applying to specific aspects of technology, while its brand name can be protected by means of a registered trade mark; the product's appearance can be protected through a registered design; and finally manuals relating to the product can have copyright protection.

3.2.5 Description of IP Rights

Appendix D provides a comprehensive description of each these IP rights, set out for ease of reference in the form of:

- Conditions of Validity/Level of Protection conferred; and
- Means of Protection available.

The IP rights covered in the appendix are as follows:

A: Trade marks

B: Patents

C: Designs

D: Copyright

E: Geographical Indications

F: Plant Varieties

G: Semiconductors Topographies

H: Unfair Competition/Passing Off

3.3 Investigation and enforcement measures

The purpose of this section is to list different types of possible remedies against intellectual property rights infringement. Please note that not all measures are available in all places or in same way.

Enforcement measures are only applicable on those territories where the IP rights enjoy protection. With the signature in 1994 of the WTO agreement on IP rights ('TRIPS'), WTO members including all EU countries had to harmonise their national judicial system to provide procedures and remedies to ensure that IP rights can be effectively enforced.

Since then the means of enforcing IP rights in the European Union have common standards. They can be divided into two categories, Judicial and Administrative actions.

Judicial actions can be divided into two types, Private and Public. Private actions are led by the IP rights owners and are aimed at stopping illegal activities and obtaining financial compensation from the counterfeiter. Public actions are initiated by public authorities and are aimed at imposing sentences (a fine and/or prison) on a person responsible for the sale of counterfeit products that harm the public interest.

Administrative actions encompassed in the TRIPS agreement mostly relate to Customs procedures, totalling nine articles.

There also exist other administrative actions, which will be dealt with separately below, and which can be led either by the rights owners (in formulating complaints) or by the administrative bodies themselves if the public interest is at stake and more particularly when the consumer is in danger. These procedures are not harmonised and do not necessarily exist in all countries. However, if and when they exist, their existence is linked to either protection of the rights owner, protection of the consumer or application of existing technical standards.

3.3.1 Judicial actions: private actions

It is worth noting Directive no. 2004/48/EC of 29 April 2004 on the enforcement of IP rights, which has the general objective of *'harmonising national laws on the means of enforcing intellectual property rights'*.

Indeed as stated in the 'Whereas' of the directive, *'it emerges from the consultations held by the Commission on this question that, in the Member States, and despite the TRIPS Agreement, there are still major disparities as regards the means of enforcing intellectual property rights.'*

'The disparities between the systems of the Member States as regards the means of enforcing intellectual property rights are prejudicial to the proper functioning of the Internal Market and make it impossible to ensure that intellectual property rights enjoy an equivalent level of protection throughout the Community.'

All private actions are performed before civil courts by the IP rights owner and in some countries, for example China or Thailand, before specialized IP courts. The aim

of this procedure is to obtain an injunction to stop the misuse of rights as well as to get damages from the counterfeiter for his illegal activity in order to compensate for the rights owner's economic loss.

These procedures are organised so as to:

- preserve the evidence of the infringing act;
- grant to the rights owner the possibility to obtain pre-trial remedies.

They also allow the judicial authority, after the hearing of the case on the merits (if a judicial decision is taken finding an infringement of an IP right), to issue against the infringer:

- an injunction aimed at prohibiting the perpetuation of the infringement;
- an obligation to pay damages to the rights holder that are appropriate to the actual prejudice suffered as a result of the infringement;
- the destruction or confiscation of the infringing goods; and
- the publication of the decision, all or in part.

Cease and desist letter

Prior to launching a civil procedure, and in order to find a solution without having to go to court, the rights owner may send a cease and desist letter to the counterfeiter informing him of the rights owner's IP rights and requesting that he stops any infringing activities.

This letter generally sets out the conditions under which the rights owner will accept not to go to court and it can encompass requests such as: the immediate cessation of the infringing acts; payment of damages; delivery of the infringing goods to the rights owner (or the destruction of the infringing goods under supervision of the rights owner); and a penalty clause or liquidated damages for future acts of infringement.

If all or sufficient conditions are accepted by the infringer, this may lead to the signature of an agreement between the parties confirming the obligations on the counterfeiter. Once signed, this agreement may be validated by a tribunal.

Collection of evidence to be used later during the trial

In accordance with the requirements of the TRIPS agreement, all countries must provide the possibility to obtain a preliminary order prior to trial in order to preserve evidence if there is reason to believe that this evidence would disappear or be difficult to find at a later stage.

Such measures may include the detailed description, with or without the taking of samples, or the physical seizure of the infringing goods and, in appropriate cases, the materials and implements used in the production and/or distribution of these goods and related documents.

This procedure can be initiated by the plaintiff himself or by a third party such as a bailiff or a notary public.

Pre-trial remedies

Civil proceeding takes time and counterfeiters may use this time to arrange for the disappearance of the goods or to continue production, causing irreparable harm to the rights owner.

Provisional measures may therefore be decided by the court in order to put a rapid end to the illegal activities. However the plaintiff must provide the necessary guarantees to cover the costs and the injury caused to the defendant by an unjustified request.

These measures generally take the form of an interim, preliminary or interlocutory injunction restraining the defendant from performing counterfeiting acts and/or requiring him to deliver all the fake goods to the plaintiff. It can be decided *ex-parte* (i.e. without the presence of the defendant).

Substantive procedure

Whether or not there is the possibility of obtaining pre-trial remedies, a substantive action may be filed before the court in the form of a summons and served on the defendant either by the court or by a third party such as a bailiff. This procedure is always contradictory (i.e. in the presence of the plaintiff and the defendant).

During the procedure, each party will file a written submission in order to introduce evidence and legal arguments. A hearing on the merits is generally short in Civil Law countries where the procedure is mostly done in written form but it can be very long in Common Law countries where oral evidence in front of the court is standard practice.

If the matter is complicated, the judge can ask the assistance of an expert. Written judgement is undertaken by the court after final submissions are complete.

If a judicial decision finds that an IP right has been infringed, the judicial authority will issue against the infringer:

- an injunction aimed at prohibiting the continuation of the infringement;
- an obligation to pay the rights holder damages appropriate to the actual prejudice suffered as a result of the infringement;
- an obligation for the losing party to pay reasonable legal costs;
- the destruction or confiscation of the infringing goods; and
- the publication of the decision, in all or in part.

Out of court settlement

During the civil procedure, the parties can negotiate to settle the dispute amicably if the court suggests it. If they reach an agreement they will sign a so-called out of court settlement which can be endorsed by the court in a final judgement.

Mediation and Arbitration

WIPO's Arbitration and Mediation Centre has offered specialised alternative IP dispute resolution procedures since 1994.

Mediation is a non-binding procedure which involves a neutral intermediary (the mediator) who assists the parties in trying to reach a mutually satisfactory settlement of the dispute. Any settlement is recorded in an enforceable contract.

Arbitration is a neutral procedure in which the dispute is submitted to one or several arbitrators who will eventually make a binding decision on the dispute. Usually the parties insert an arbitration clause in the contract that binds them. An existing dispute can also be transferred to arbitration by means of a submission agreement between the parties. In contrast to mediation, a party cannot unilaterally withdraw from arbitration.

According to WIPO, by March 2006 47 arbitrations and 44 mediations had been filed covering disputes arising from patent or software licences, joint ventures, R&D or trade mark co-existence agreements, distribution agreements for pharmaceutical products, as well as domain name and patent infringement disputes.

3.3.2 Judicial actions: public actions

As foreseen by Article 61 of the TRIPS Agreement: *'Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trade mark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale'* (our underlining).

The national legislations of most countries therefore provide for criminal procedures and sanctions for the infringement of IP rights. Some stick to the TRIPS Agreement and ask for strict interpretation of the two conditions (i.e. intention and commercial context), others are more flexible.

In some countries (such as China) a third condition is linked to the commercial value of the seized counterfeits. Below a certain threshold, counterfeiting will be considered an administrative offence, but regarded as a criminal offence above this threshold.

In the European Union, unlike with private actions, there is no applicable common text that harmonises criminal sanctions and procedures — though a Directive

proposal does exist (see below). However in all EU member states counterfeiting an IP right is considered a public offence and as such can be pursued by the State in order to put an end to this illegal activity by imposing sentences (fines and/or prison). Note however that not all IP rights abuses are criminally sanctioned.

Conditions

In most but not all countries worldwide that do recognise IP offences as criminal offences, to obtain a criminal conviction the state representative (generally the prosecutor) must demonstrate an intention to act (i.e. the counterfeiter must act knowingly) and that the right is being commercialised.

- Intentional element

This is difficult to prove since it is a subjective analysis performed by the judge. It may be assessed from various factors such as: the price paid for the fake products vs. the genuine ones, or whether the quantities involved are consistent with normal individual consumption.

- Commercial context

This is easier to prove since this element can be derived as soon as a commercial profit is sought.

- Value of the good seized or necessary volume to start criminal procedure (only in some countries)

For instance, in China, it is necessary to reach a certain threshold to start a criminal proceeding. For instance, for a private person, the value of the good seized must be more than 50,000 RMB (approximately €4,900) if one counterfeit trade mark is involved.

This amount can be calculated either on the value of the fake products (if such a value can be found) or on an average price for equivalent genuine products. This calculation is made by an independent body.

Procedure

Even though public authorities may act *ex officio* a criminal procedure is usually started via a complaint filed by the IP rights owner either to the police or the prosecutor. If filed directly with, or instructed by, the prosecutor, the police can start the investigation and have the power to visit the premises, conduct hearings, arrest the potential counterfeiters (for a limited time) and seize stock and manufacturing equipment.

Once the investigation is concluded, the prosecutor will decide, based on the facts obtained, whether or not to pursue the case. If it does transfer the case to the court for hearing, this will be contradictory, the plaintiff being the state and the defendant the counterfeiter. The prosecutor will need to show the necessary evidence to demonstrate that the required conditions to obtain a criminal conviction are fulfilled.

In some countries the IP owner may take part in the hearing and submit a claim for compensation before the court; or, if this is not possible, issue concurrent proceedings before a civil court to obtain damages.

Sanctions

The two objectives of the criminal sanctions are to punish and deter.

Sanctions for natural persons range from custodial sentences to fines and the confiscation of goods, instruments and products related to the infringement; and potentially also to sanctions such as:

- destruction of the goods infringing an intellectual property right;
- total or partial closure, on a permanent or temporary basis, of the establishment used primarily to commit the offence;
- permanent or temporary ban on engaging in commercial activities;
- placing under judicial supervision;
- judicial winding-up of the business;
- ban on access to public assistance or subsidies;
- publication of judicial decisions.

(Note: not all of these sanctions are available in all countries but they are mentioned in Article 4 of the Proposal for a European Parliament and Council Directive on Criminal Measures aimed at Ensuring the Enforcement of Intellectual Property Rights).

Aggravating circumstances like recidivism and commission of the offence by organised crime may lead to higher sanctions.

3.3.3 Administrative actions: Customs procedures

Customs procedure has been generalised with the signature of the TRIPS Agreement. Articles 51 to 60 set out the obligation on WTO members to implement such procedures.

In the European Union two regulations have set out the rules for the implementation of this Customs procedure. The first dates back to Council Regulation (EC) No. 3295/94 of 1994, abrogated by Council Regulation (EC) No. 1383/2003 of 2003, concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights.

The IP rights covered by this procedure are trade marks, patents, industrial designs, plant varieties, protected designations of origin, protected geographical indications

and copyright. This procedure applies when goods suspected of infringing an IP rights are entering, leaving or are in transit within the Community customs territory. Customs can act when:

- a rights owner, the authorised user of the rights or a rights owner's representative have filed before Customs authorities an application for customs action which has been granted by such authorities;
- on an *ex-officio* basis when they have sufficient grounds for suspecting that goods infringe an IP right. In this case, the rights owner has three days from Customs notification to file an application for Customs action.

Once the application is granted and when Customs authorities discover suspected goods, they will suspend the release of the goods and inform the rights owner, who will then have to confirm within 10 days (or in some countries 20 days) the infringing character of the goods and initiate national (civil or criminal) procedure in order to confirm the seizure of the suspended goods.

If, after 10 days, the rights owner has not begun one of the above-mentioned procedures, Customs will release the goods to the importer.

In the European Union a simplified procedure as stated in Article 11 of Council Regulation (EC) No. 1383/2003 *'enables customs authorities to have such goods abandoned for destruction under customs control, without there being any need to determine whether an intellectual property right has been infringed under national law'*. Conditions of application of this simplified procedure are decided by each Member State.

It is worth noting the situation in China regarding Customs actions against infringing products. In spite of Customs intervention procedures in China being the same as for any other WTO signatory, China is, in contrast, doing more than merely applying TRIPS Agreement and most of China's controls are export-related. However, unlike in Europe, Chinese Customs is responsible for only a limited number of IP rights (patent, copyright and trade marks).

3.3.4 Administrative actions: other forms

In some countries the assistance of administrative bodies other than Customs may be requested to confiscate infringing goods. This can be done using either IP law or a legal basis other than IP law, for example when the goods are dangerous and pose a hazard to the lives of consumers, or when the goods do not conform to international standards such as ISO.

These actions are taken at the initiative of the rights owner or directly via the competent administrative bodies. They may lead to administrative decisions such as the confiscation of the goods and fines or, in the worst cases, to criminal procedures initiated directly by the administration against the seller, distributor or importer of the goods.

China provides a good example of administrative bodies tasked with fighting fake products. Many are powerful and well-organised and 90% of all IP enforcement

measures are conducted by these administrations. Four administrative bodies are in charge of IP protection, each with its own area of competence (see chart below).

Administration in Charge	IP rights protected
Administration of Industry and Commerce (AIC)	Trade Marks Law Unfair Competition Law
Administration of Quality Supervision, Inspection and Quarantine (AQSIQ, also know as TSB)	Product Quality Law (which includes the apposition of a false trade mark)
Copyright Administration	Copyright Law (including computer software)
State Intellectual Property Office (SIPO)	Patent Law (In China Patent Law includes Invention, Utility models and Industrial Designs)
General Administration of Customs	Regulation of PRC for Customs Protection of IP rights

AIC and TSB are the best known of these administrations. They provide quick, cheap and efficient actions with a very small degree of formality. Yet they are subject to protectionism, especially at a local level, and the lack of deterrent effect in their decisions is also a drawback, as the chart below demonstrates.

Year	2002	2003	2004	2005	2006
Number of procedures*	23,539 (2,072)	26,488 (2,029)	40,171 (5,494)	39,107 (6,770)	33,900 (7,439)
Average value of fines**	5,761 RMB	7,414 RMB	Not available	6,921 RMB	Not available

Administration of Industry & Commerce Statistics for Trade Mark Infringement and Counterfeiting Cases throughout China (source: Chinese Trade Marks Office)

* Figures in brackets refer to cases initiated by foreign companies

** 1EUR = approximately 10.3 RMB

On the other hand the Patent and Copyright Administrations have limited enforcement abilities. Evaluating patent or copyright infringement is complex so these administrations can act only in very clear-cut cases.

3.4 Alternative methods of defending intellectual property

The standard reference works covering IPR protection have traditionally been written by firms of lawyers or patent/trade mark attorneys, sources of advice that have naturally tended to concentrate on the registration of IPR and ways of gaining redress once a problem has been encountered. However the situation is changing and an increasing number of legal practitioners, as well as others advising in this area, now emulate the medical fraternity in stressing that **prevention is better than cure**.

This section of the study report sets out a range of strategies and measures for consideration by companies operating in any environment where there is the risk of intellectual property being abused — which, to an experienced business person, means almost every market in the world. The methods discussed are those actively employed by individual businesses and trade associations and recommended by legal and specialist firms dealing with IPR abuse.

The SME Survey asked respondents for details of the measures in this category, which they employ, and the results are given in the next section.

3.4.1 Why counterfeiters gain the upper hand

Why, exactly, is prevention better than cure? It could be argued that a powerful multinational corporation, with its patents and trade marks securely registered to cover the markets in which it is operating, would have little to fear from small counterfeiters. The IP rights owner can, after all, bring cases against infringers, confident that he will win because of his relative might and the legal position.

Will this result in the closing down of the illegal factories and distribution networks with the infringers fined or jailed? That would be a naïve view: the realities of modern IPR infringement are very different. It is hard to keep ahead of the counterfeiters if one chooses to operate reactively and wait to sort out problems through litigation and other means only once they have appeared.

When a new product is introduced, especially in the consumer sector, the counterfeiters often move fast. They have several advantages to help them introduce their versions of the product quickly and at a fraction of the price of the genuine article. This means they may succeed in grabbing and maintaining market share ahead of the legitimate distributor.

A secret wave of dangerous fakes is threatening the people in Europe. The key is to be faster than the counterfeiters. We must quickly identify, and act to deal with, new routes of fraud and constantly changing counterfeit patterns to protect our health, safety and the economy.

László Kovács, EU Taxation and Customs Commissioner, November 2006

The infringers enjoy many advantages. These include:

- Safety and quality standards will generally be minimal or absent, often with no regard to the effect of the product on its intended customers.
- Counterfeiters do not need to carry out extensive product development but only to copy the product with, perhaps, modification to try to avoid detection and some degree of reverse engineering if it is complex.
- Investment in items such as market research is not necessary as this will have been done by the rights owner in deciding to bring the product to the market.

As Stephen P. McGrew, President of New Light Industries Ltd, puts it:

Typically, the creator of the product has made a large investment to create the product, but the counterfeiter can copy the product by reverse engineering with a much smaller investment... If the counterfeiter can make a high-quality counterfeit at low cost, he has a big advantage over the copyright owner: his profit margin can be MUCH higher.

3.4.2 Litigation can be costly and unreliable

Apart from the need to keep ahead of counterfeiters, cost is an important consideration for a rights owner who decides to rely on litigation (or in some countries, notably China, the alternative of administrative action) to deal with IPR abuse retrospectively. This cost includes not only the outright fees charged by the investigators and lawyers who will be involved in bringing a case to court; but, probably less acceptable, is the inevitable price to be paid in terms of management time. Company executives may have to be present for an extended period when conducting such actions overseas. To this must be added the distraction, hassle and other implications of commissioning and briefing specialists when conducting a legal case.

The situation becomes worse when the likelihood of success in bringing a case is considered. In some markets the greatest flaw in relying on legal process to solve IPR infringement problems is the uncertainty of the outcome. Corruption, national or regional self-interest, poor judicial training standards, unsophisticated legal and administrative processes and — assuming the plaintiff wins the case — inadequate penalties, can all play a part in causing what appeared at first to be an open-and-shut action to yield an unexpected or disappointing result.

3.4.3 The problem is acute for SMEs

The example of the effect of fighting IPR abuse cases on a well-resourced company reflects the fact that most cases of this type that receive publicity or notoriety involve multinationals. SMEs, which tend to have more meagre resources, smaller management teams and fewer in-country contacts, are generally at an even greater disadvantage.

Indeed, it is common for smaller companies to operate in markets that are risky from an IPR infringement perspective without any expectation that they will be able to fight legal cases or obtain redress if their products or services are abused.

3.4.4 Litigation in context

The previous sections underline the problems of adopting a reactive stance, i.e. waiting for IPR infringement to occur before taking enforcement action to try to recover the situation. Being reactive in this way may allow the infringers to get an early foothold in the market, while the actions to be taken may be costly, ineffective — or even, for smaller companies, impracticable.

However this advice is not intended to suggest that engaging in enforcement through the courts or administrative authorities should be avoided altogether. There will be many situations where, despite taking all conceivable pro-active measures to safeguard one's IPR, there is no alternative but to confront the infringers by bringing a case against them. The various ways of obtaining redress are discussed in full in the preceding section of this chapter.

3.4.5 Geographical considerations

As mentioned in Chapter 2, most SME Survey respondents mentioned China as one of the countries where they have experienced IPR abuse. As the EU Trade Commissioner has made clear, based on the findings of a survey:

About two-thirds of counterfeit goods intercepted on their way into the EU are made in China. Behind China come Russia, the Ukraine, Turkey and Chile.

Peter Mandelson, EU Trade Commissioner, October 2006

While the incidence of abuse is high in many markets, China provides a vivid illustration of the problems exporters and investors should prepare for. It is claimed that the situation in China is improving, in part as a result of international pressure but also because of the awareness of the problem that has resulted from the high number of domestic (i.e. Chinese/Chinese) cases as well as the major advances in its IPR legal framework, which are justifiably admired by international lawyers.

The problem is by no means confined to the countries where it is well known that there are significant IPR risks. Developed Western nations have abundant experience of their own indigenous rackets, some of them worth stupendous sums:

The auto parts industry estimates counterfeit parts have become a \$12 billion problem worldwide, with \$3 billion in phoney auto parts sold in the United States alone.

Autos Insider, January 2007

However shortfalls in the practical aspects of detecting infringers and achieving enforcement in China, as well as doubts about the deterrent effect of the sentences being handed down by the courts, tend to support the view that a great deal has still to be done.

For these reasons much of the practice discussed in this chapter is based on experience in China. It can be confidently asserted that if the measures a company adopts succeed in averting IPR infringement problems in China, the lessons learnt will be valid almost anywhere.

3.4.6 Self-help measures

The alternative to a reactive stance is to prepare for and, if possible, prevent attempts at IP abuse. The following sections recommend various methods available to companies to help protect their IPR. They are aimed at companies contemplating any of a wide range of business activities, including selling, sourcing and investing in local manufacture.

Regular audits of IPR registration for current commercial markets and sources Demonstrating use, self-worth and protection of registered IPR

Whether or not it is feasible for a company to fight IPR abuse through the courts or to obtain redress via administrative authorities (where such a system is available), it is essential that intellectual property should be registered. In some markets (notably China) it is advisable also to take advantage of voluntary recordal systems for copyright (which is an ‘unregistered right’) in spite of the protection enjoyed by copyright holders from countries that have signed up to the copyright conventions to which China also belongs. As the US Department of Commerce's website states:

Copyright owners may wish to voluntarily register with China's National Copyright Administration (NCA) to establish evidence of ownership, should enforcement actions become necessary.

Without such registration taking any legal action (which, as we have seen, may become inevitable) will be impossible. Registration also demonstrates that the rights owner values the IP and it therefore has a protective effect that will deter some infringers.

Where ‘malicious’ registrations of a company's IPR are found in the market it may be possible to negotiate with the entity concerned to purchase them back. Another tactic sometimes used is for the company manufacturing or selling the genuine product to purchase a counterfeiting company outright. This may seem a strange way of dealing with an infringement but — setting aside regard to the illegality of the counterfeiter — it may make sense in purely commercial terms when one considers the counterfeiter's knowledge of the product, market share and so on. (This practice is more prevalent than merely an occasional, peculiar case).

When planning to enter a new market it is important to check the effectiveness of the business's existing portfolio of IP registrations for the market (including consideration of the whole supply chain) and if necessary update the company's registrations. A further benefit of doing so is that removing redundant registrations will save costs by reducing the number of renewals. Patent & trade mark attorneys and legal firms offer audits of a company's IPR portfolio, as well as registration and renewal services.

Notices stating the ownership of registered and unregistered rights, and where appropriate the familiar ‘©’, ‘®’ and ‘™’ devices, should be widely employed.

As we have seen, bringing a case in the courts may be inevitable in cases of infringement. Taking such action can in itself be a very positive step in safeguarding intellectual property as it demonstrates that a company values its IP and is willing to defend it. This can have a strong deterrent effect.

Another effective strategy is to make it plain that you intend also to pursue the ultimate user or distributor of the infringer's product. Where the customer is buying counterfeit product unwittingly, and would normally have no intention of abusing IPR, this threat can be a powerful way of encouraging a supplier who values the relationship with his customer to desist.

IPR risk assessment of markets and sources

It is sensible to perform a thorough risk assessment when considering a new market, especially if there are known problems. This applies equally to exporters and those investing in local manufacture, as well as to distributors who need to consider potential problems along the supply chain. One element of this exercise should be to assess the likelihood of IPR abuse, using information from a wide variety of sources including the experiences of other companies and advisers. In an extreme case it may be better to decline the opportunities of a high-risk market rather than hazard the company's valuable intellectual property.

Even if the results of a risk assessment exercise suggest that there are few immediate risks, it is advisable to devise a plan that can be put in hand at short notice should an IPR infringement occur: such problems can happen suddenly and without warning. This plan should include deciding who would be responsible for which activities within the company and which specialists might be called on to help in the remote market and at home base.

Once operating in a market it is essential to keep one's eyes open for infringements. Counterfeiters are becoming increasingly sophisticated. For example, in a recent case a commercial computer peripheral device was copied by two separate counterfeit factories in China, each of which had 'tooled up' to the extent of using sophisticated surface-mount components. This resulted in usable products, which differed from one another but challenged the original device in terms of weight and compactness.

The need to involve staff closely in this process is discussed later in this section. Specialist firms can assist by providing a 'watch' service. Companies and their local representatives need to remain alert, taking imaginative steps such as monitoring sales outlets, the Internet, advertisements and official gazettes to detect existing or intended infringements.

Designing products or services to minimise the risk of abuse

Combating reverse engineering through technological advances and techniques

Further development will often be required to make an existing product suitable for a particular market. During this process it may be feasible to make alterations aimed at making the task of reverse-engineering the product more complex for a would-be counterfeiter.

One company whose production process depended on a mixture of several gases wished to deny this 'secret recipe' to its overseas workforce and others. It achieved

this by arranging for the gases to be mixed remotely and supplied to the factory in two master formulations for final mixing.

Software programmers may consider special encoding techniques to deny visibility of source code, although the rapidly improving ability of hackers makes this an increasingly uncertain tactic. An example of the problem is the counterfeiters who broke down the encryption of television satellite smart cards in a matter of days to produce and sell their own version. Meanwhile, a major UK CAD/CAM company is on record as saying that such are the risks that it will no longer allow its source code to be sent into the markets where it sells its systems.

The problem of reverse engineering is growing in line with the production techniques of genuine manufacturers:

The prong of the problem everyone understands is that technological advances in printing, scanning, 3-D modelling and so on have made copying through reverse-engineering easier and cheaper than ever.

Roger Parloff, FORTUNE Magazine, April 2006

Use of in-house legal team

Use of lawyers, patent attorneys or similar

IPR auditors/investigators

It is important that in-house lawyers and IPR specialists (where these exist) should work closely with other relevant departments such as purchasing, engineering and sales/marketing to ensure that there is a common approach to the protection of the company's IP.

Companies possessing adequate IPR protection skills in-house may still require assistance from external advisers, especially when entering markets where they are inexperienced. Apart from advising on any problems encountered and the tasks of auditing, registering and renewing intellectual property, it may be advisable to use a professional to audit the company in terms of the IPR risks to which it is exposed.

Such specialist firms are able to examine objectively the various procedures and processes governing the way the company handles and protects its IPR. They are also able to conduct investigations on behalf of the company when there is a problem. The collection of evidence will, of course, be essential when bringing cases.

Staff education & training

Involving staff in policing of IPR

IPR-related clauses in employee contracts

Training and involving staff in the protection of IPR is a vital part of IPR protection because it enlists the services of people who might be expected to have a strong interest in guarding the company's intellectual property. One tactic is to encourage reports by whistle-blowers, since IPR abuse may occur within a company as much as outside it. Some experts believe employees and other 'in-house' sources are responsible for the majority of infringements.

Attitudes are also important. Few business people appear to see a contradiction between buying fake goods on a street corner and being outraged at the

infringement of one of their company's products. Senior executives need to set an example by being consistent over counterfeiting if they are to influence attitudes to IPR protection within their companies. As Tim Phillips notes in his book *Knock Off: The Deadly Trade in Counterfeit Goods*:

In January 2005, The Gallup Organization polled 1,304 US adults. When asked whether they had purchased counterfeits in the last year, 13 per cent said they had — and half had purchased two or more types of counterfeit product. More than half of the 13 per cent had bought knockoffs knowingly.

Bizarrely, among the purchasers of knockoffs, 57.7 per cent called for stricter counterfeiting laws, and only 7.7 per cent for less strict laws. That is, they wanted to tighten the laws that they had recently broken.

Staff working overseas have a particularly important role and those sent to represent the company may need special training. For local staff, concepts that are taken for granted in the home country may need more explanation overseas. It is essential to take into account the educational, business and cultural norms of staff in remote markets and adapt the company's communications and training methods accordingly.

A pharmaceutical company found that its graduate engineers were sharing their latest discoveries with former university colleagues working for a rival company. It turned out that there was no improper intent: they were motivated by pride in their achievements. Nobody had told them it was wrong to share proprietary information, even with friends.

Even when normal practice is well understood it is advisable to underline the importance the company attaches to keeping technologies secret and helping preserve IPR norms by including appropriate confidentiality clauses in employee contracts and making effective checks when hiring. For employees in certain positions clauses should include non-compete stipulations covering former staff.

To avoid staff taking with them inventions made during their employment and subsequently filing patents in their next company, the position should be confirmed with reference to any 'claw back' regulations. Above all, companies are best advised to try to avoid hiring corrupt staff in the first place.

Use of 'political influence' with local commercial and non-judicial authorities Maintaining background relationships with IPR-related authorities

As we have seen, legal processes alone may not be sufficient to protect your IPR. In many markets it will be advantageous to maintain a good relationship with authorities who can have influence in an IPR context, beyond those directly responsible for law enforcement.

For example, it will be in the interests of a local authority responsible for promoting inward investment to ensure that disincentives to investors such as counterfeiting factories are kept to a minimum. If a counterfeiter threatening a legitimate manufacturer or distributor is detected, the authority may be prepared to act, sometimes behind the scenes, to preserve the reputation of local business. This may

be a more efficient way of achieving the right result than more overt or conventional methods.

Similarly, it is worthwhile maintaining a background dialogue, in good times as well as bad, with the authorities responsible for intellectual property law and enforcement. Reducing IP abuse is in their interests, so they can be a useful source of advice and practical help. It may be worth holding regular briefing sessions with Customs to keep them up to date on matters such as trade marks and vulnerabilities during shipment. In China, for instance, the Customs authorities are able to make seizures of outbound goods (see paragraph 3.3.3 above).

Deliberate avoidance of risky markets

Withholding IPR-sensitive technologies from risky markets

Trialling risky markets with older technologies

The need for a risk assessment exercise when entering a new or unfamiliar market, covering IPR as well as other potential problems, has already been discussed. From this process, as well as from sources such as desktop research and the experience of other companies already present in the market, an exporter or investor should have gained a picture of how risky the market is. Deciding how to react to this conclusion is the next stage. Much will depend on the attractiveness and vulnerability of the IP in the market, as well as the extent to which the loss of control over it would compromise the future of the business.

If the technology is very vulnerable and infringement of the IP would represent a significant problem for the company, it may be better to accept the loss of the opportunity in the new market. But the damage may not be confined to the target market: counterfeiters as well as legal companies are able to export to other countries, where their products may challenge the original items — the ‘third country counterfeits’ problem.

Careful choice of which products to introduce into a risky market may offer a sensible alternative to outright avoidance. Some companies use older technologies to try out markets where IPR infringement is known to be a problem. Clearly this may carry the risk of failing to introduce a product that can beat the competition; but it may be the lesser of two evils. There is also sometimes a ‘political’ dimension, especially in developing countries where the withholding of the latest technology may be seen as insulting or patronising; but this might still be a preferable alternative.

Checking for the presence of counterfeits in the market

Informing customers of abuses through advertising or the Internet

All companies trading or investing in markets where their products or services may be at risk need to monitor for abuse, and not just at the outset of their involvement. Surveys have shown that companies’ own employees or representatives detect most infringements. This highlights the need for basic training in IPR norms and how to be aware of infringement. Specialist firms may also need to be given this task, either as a ‘watching brief’ or when counterfeits have been detected but their source remains unclear.

Exhibitions are a favourite place to uncover IPR infringements. In certain countries the organisers and authorities regularly co-operate with rights owners to police

abuse. It is now common for major trade fairs to include a 'dark' exhibition stands whose occupants have been excluded because they were displaying counterfeits.

Counterfeiters, too, are skilled in using the Internet to sell their wares. Some are remarkably blatant and it is not uncommon to see complete brochures for original products incorporated into websites posted by infringing companies, perfect in every detail because they use the original meticulously-prepared text and photographs.

Companies should consider publicising the activities of infringers in press advertisements or on websites with key words designed to be found by an Internet search.

Beware! The Parts Could Be Imitation. When it comes to auto parts, that old saying is definitely the case. Imitation auto parts have become a serious problem in recent years. And it doesn't just hurt companies such as ACDelco — it hurts you, the person buying the parts, as well. It's worth your while to read on and find out more about this problem.

ACDelco website

These methods can be effective for products with safety- or health-critical implications in particular, where consumers will — with good reason — generally wish to avoid counterfeits. For more mundane products (where perhaps 70% of the functionality is available in the counterfeit for 20% of the genuine item's price) such measures could, of course, be counter-productive.

Counterfeit Durex condoms are believed to have been illegally placed on the market in the UK. They are not manufactured to the appropriate British or European standards, and cannot be considered to provide protection against sexually transmitted diseases or pregnancy.

Medicines and Healthcare Products Regulatory Agency alert, March 2005

Performing due diligence checks on contractors or partners IPR protection clauses in commercial contracts

The background to these headings is that some Western business people are susceptible to persuasion that the norms of international business do not apply when dealing in certain unfamiliar or exotic markets and tend to suspend their usual commercial judgement. This can lead to poor decisions when choosing whom to appoint as a local representative or trust as a supplier, shipping agent, distributor or customer.

Obeying normal business instincts is particularly important in a high-risk IPR environment. Prospective subcontractors, licensees or partners whose probity has not yet confirmed should pass a due diligence check before being entrusted with intellectual property. If a formal check of the type that is familiar in Europe is not feasible, there should at least be enquiries into previous business dealings with other overseas companies and 'references' should be sought. Infringements are common in licensing arrangements but the required audits of production will help to act as a deterrent if conducted thoroughly and imaginatively.

The same type of IPR protection clause that is used in contracts in one's home country should be included when commercial contracts are negotiated overseas. They may need to be made more forceful to take account of a more risky environment. An assertion that such clauses 'do not accord with local customs' should be treated with suspicion rather than as a reason for departing from usual practices.

Overseas partnership arrangements such as joint ventures can represent two extremes of practice in the way a company's IPR is treated. A well-motivated and trustworthy local partner with its 'ear to the ground' in a market it knows well may be the best possible source of early intelligence about infringement. Policing and, if necessary, enforcing the jointly-owned rights are in its interests, in line with the mutual objective of bringing good product to market. If there are problems the local partner may be able to find solutions without having to invoke costly procedures, perhaps by making use of its relationships with relevant authorities in the region (as discussed earlier in this section).

At the other end of the spectrum, if a dishonest partner is chosen — perhaps as the result of an inadequate due diligence process — there will be ample opportunity for the local partner to use its influence and knowledge to obscure the real situation from its overseas associate. Production can be made cosmetically satisfactory for inspection visits, books can be 'cooked' and local officials paid off; while in a remote location the drawings, designs, tooling and know-how to which the factory has intimate access are being used to equip a sophisticated illegal operation, perhaps run by a third party.

This range of experience, which reflects good and bad practices commonly found in certain markets, underlines the need for vigilance, conscientious checking or auditing procedures and the avoidance of naivety, backed up by sound contractual clauses to protect the company's IPR.

Retaining critical design activities in home country

The pressure to move production to lower-cost environments overseas is now a familiar reality for many companies. Demands to relocate expensive engineering operations abroad are now also being felt within many businesses, for both economic and local market reasons. However the IPR risks of doing so may be much greater than for manufacturing *per se*. Sensitive information, critical to the company's future, may become exposed to abuse by competitors or insiders, with a higher risk that of infringement (and a lower prospect that this will be detected) than if such operations were retained closer to the home base. Companies must carefully evaluate the pros and cons of such a step.

Here again, there is a disparity between the experience of multinationals, many of which have first-class, successful R&D facilities in developing countries (with few risks because they can afford to put in place sophisticated protection systems) and SMEs. The latter's lack of resources — and their inability to pay salaries that will attract top engineering graduates and, more important, retain them — tends to make smaller companies more vulnerable to this form of IPR abuse.

Retaining critical elements of production in the home country
Using contract manufacture service companies as sourcing intermediaries
Dispersal of manufacture/sourcing of component parts of product
Offering a service in addition to the basic product

In spite of the pressures on many companies to relocate production to low-cost countries, it may be wise not to include every part of an item if the technology is vulnerable and there is an inherent risk of IPR abuse in the country concerned.

Many companies withhold critical products, components or sub-assemblies from overseas manufacturing operations, either incorporating them later in a separate assembly facility or shipping them to the factory as ready-made items. If the risks are extreme the entire manufacturing process of a product may have to be retained under the direct control of the home base. As with the considerations for 'offshoring' R&D discussed above, there is often a balance to be struck between the short-term economic imperatives and the longer-term risks.

Spreading the production of a particular item amongst a number of different contractors and locations, whether through one's own sourcing activities or by using the services of a contract manufacture (or 'managed outsourcing') company can help to achieve the same kind of protection: no single manufacturing entity has the ability to copy the whole of a particular product.

The critical element, or elements, to be withheld may be only a small part of the overall bill of materials, such as a PCB or even a single electronic component or software program — the 'clever bit' that represents the latest IP and makes all the difference for the product's vulnerability.

Another method of outwitting a counterfeiter is to offer a higher level of service than a counterfeiter would contemplate. In addition to a comprehensive and plausible after-sales service, it may be possible to offer the means of installing the product. Add-ons that differentiate the genuine item from the fake will tend to promote customer loyalty — even in the presence of lower-price counterfeits.

Regular changes to key elements in products and packaging
Tight control of drawings, tooling and other key elements of production
Incorporating tracers or fingerprinting into product/packaging design

Sensitive IP is often ephemeral. If this is the case with a particular technology, then changing it may bring the inherent protection of requiring a counterfeiter to devote an uneconomical effort in 'keeping up'. Regular changes to the product and its packaging may also make it easier to detect abuse. Many manufacturers incorporate subtle changes to packaging, or the product itself, that may go unnoticed by the counterfeiter but will help to identify copies in the event of action being taken, even though the packaging is outwardly a perfect replica.

A Yorkshire man who has invented a product which weaves labels unique to each garment, could help to defeat the trade in counterfeit designer merchandise, it has been reported... Mr Ahmed's patented procedure enables the designer to weave an invisible code into the product which can be used to certify the authenticity of the garment.

Yorkshire Forward, November 2006

Banknotes provide an extreme example of this practice, with national banks making supreme efforts to make life difficult for forgers, as well as incorporating ways of identifying forgeries. The countermeasures used in some forms of packaging approach or exceed this level of sophistication. For example, modern 'taggant fingerprinting' technologies, such as those used by pharmaceutical companies, offer virtually impregnable methods of verifying whether or not a package or item is genuine. However while they allow the detection of counterfeits for enforcement purposes, many of these methods require high-tech detection devices and so are not designed to solve the problem of a consumer's concerns over whether a critical product is counterfeit.

Since factory-level documentary, IT and physical forms of security are vital for the protection of IPR, it is essential that subcontractors are made to realise the importance of security and that this is reflected in commercial contracts and licence agreements. The need to safeguard items such as manuals and production drawings is obvious; the same care should be taken with other key items such as tooling, which should be accounted for, stored securely and properly destroyed and documented when no longer needed or the contract ends.

Direct contact/visits with production sources and distributors Policing production and packaging overruns

With the trend towards production in low-cost, often remote, locations it may be hard to achieve the necessary production disciplines that help to safeguard IPR. Unless a company has a local representative or agent to act on its behalf in whom it has complete trust, it is advisable for managers from head office to make direct contact with subcontractors, whether in distribution or local manufacture.

Now that Western companies are pervasively outsourcing the manufacture of their products to factories overseas, they're entrusting their precious intellectual property - designs, moulds, specifications, trade secrets - to hundreds of contractors and subcontractors all over the world. It's extremely hard to police global supply chains, and IP is leaking out through 1,000 cracks.

Roger Parloff, FORTUNE Magazine, April 2006

More than 2,000 kits containing stethoscopes and sphygmomanometers were seized during transport from China to Greece in 1999. WHO reported that every part of the shipment had been counterfeited—packaging, instructions, all devices, and European standards marks... Aside from compromising the safety of device users and patients, manufacturers are adversely affected by loss of sale and loss of reputation when counterfeit parts fail that have been branded with their company's trade mark.

Medical Device & Diagnostic Industry, January 2003

There will also need to be a reliable means of inspecting factories more regularly, particularly to make sure that the production is free of fraud. Common forms of IPR infringement include subcontractors selling genuine products that result from production overruns (the 'ghost shift' problem), or to pass off counterfeit items in genuine packaging, which may itself come from overruns or even regular over-production. The outsourced manufacture of packaging — and other elements of the

product — presents particular risks so subcontractors (and, if necessary, their subcontractors) will need to be included in the policing and inspection arrangements.

3.5 Information from surveys, interviews and research

Participants in the two surveys conducted for this study — the SME Survey and the Sectoral Survey (both analysed in Appendix [A]) — and in the China Practitioners consultation exercise (Appendix [C]) were asked about their attitudes to issues of IPR protection and enforcement. This section describes the findings from these and other avenues of research.

3.5.1 Survey findings

The surveys showed that most companies taking action against infringers did so by means of civil or private actions (see 3.3.1. above). Almost 40% of all respondents favoured this form of procedure, while about a fifth reported that they had chosen to take no action and a slightly smaller percentage had been involved in criminal actions in defence of their IPR. Of those taking no action there were significant differences between sectors, with as many as a third of automotive parts sector companies opting for this choice.

When asked about their preferences in the context of the various types of self-help or alternative measures (see 3.4.6. above) approximately a third of respondents claimed to be involving their staff in the policing of company IPR, while about a quarter had dedicated staff training and slightly fewer performed IPR risk assessments of market and made use of IPR-related clauses in employee contracts (compared with 27% of respondents who used deliberate IPR protection clauses in their commercial contracts). Very few companies (15%) made regular audits of the registration of their rights and fewer than one in ten was able to make use of an in-house legal team — reflecting the SME profile of the participants.

Asked about their use of external contacts and advisers, almost half of the respondents mentioned employing lawyers, patent attorneys or similar, while 22% sought assistance from bodies such as chambers of commerce and trade associations. Fewer than 10% mentioned contact with government trade organisations and in-country diplomatic posts and very few had recourse to other IPR specialists and local authorities in overseas countries.

About 13% of businesses would deliberately avoid IPR-risky markets and a similar percentage make use of the Internet or advertising to inform customers of infringements. A small proportion (10% or fewer) made use of measures including withholding sensitive technologies from high-risk markets, performing due diligence checks and trying out risky markets by using older technologies.

Fewer than a quarter said they designed their products to minimise the risk of abuse and a similar fraction actively retain critical design activities at their home base. Measures to combat reverse engineering applied to about one in ten of the respondents.

3.5.2 Interview findings

In the Practitioner consultation, interviewees were asked about a number of topics relevant to this chapter, exclusively in the context of IPR in China.

As observed in paragraph 3.3.4 above, for less legally complex cases such as those involving the seizure of counterfeits, there is a choice between judicial and administrative action. Which option to choose is a subject of debate amongst those interested in IP rights enforcement in China. The Practitioners showed a clear preference nowadays for use of the courts rather than the administrative authorities, citing the efficiency of the legal processes and their greater deterrent effect; several referred to the continuing question marks concerning the honesty of some of the administrative authorities, especially in remote locations. Meanwhile many respondents mentioned the effectiveness of Chinese Customs, especially in view of their willingness to intercept outbound shipments.

Behind-the-scenes mediation (see 3.3.1 above) was mentioned as a common form of dispute settlement in China. By its nature this form of resolution does not receive publicity and may be far more prevalent than any available figures suggest (mediation also conforms with cultural preferences governing the way disputes of all kinds are traditionally settled in China).

As shown in the previous section, the Practitioners found that many SMEs were unwilling or unable to stand up for their rights in China, mentioning an attitude of despair about the prospects of obtaining redress amongst some.

Virtually all of the alternative or self-help measures described in 3.4.6. *et seq* were mentioned by the Practitioners, who were unanimous that few companies can regard themselves as safe from IPR abuse in China.

The need to pick good advisers was another recurring theme. Some interviewees commented that the default position of many companies, especially larger ones, was to ask big-name law firms to represent them in China, whereas many of the blue-chip firms do not possess a thorough knowledge of this market and are not necessarily competent to achieve results.

To summarise the views of the Practitioners, many felt that in China spending a modest amount of money on prevention early on will probably avoid the risk of encountering expensive problems later. To put matters in proportion, IPR abuse is just one of many risks that SMEs face in China because of their comparative lack of resources and management time. China is a market where IPR problems tend to be amplified, especially for the unprepared: if a problem can happen anywhere, it will happen in China. It is worth assuming a problem may occur and taking preventative actions accordingly.

4 Obtaining Assistance: a review of existing public/private initiatives

4.1 Introduction

It is often claimed that counterfeiting and other IPR abuses are among the biggest challenges facing business today. As discussed in the previous chapters, this is a problem that can affect any company but it is especially acute for firms trading globally. SMEs are particularly vulnerable as they are increasingly exposed to the threat of IPR abuse but many do not possess sufficient knowledge of IPR protection measures and most lack the financial resources to challenge and resist the counterfeiters. Yet it is the SMEs that are the basis of future European competitiveness and job creation.

To help meet this deficiency it might reasonably be expected that the EU Member States would have adopted a broad range of instruments targeted at helping SMEs. The theme of this chapter, therefore, is to identify such initiatives and assess whether EU companies can easily gain access to them. It is hoped to gain a better appreciation of the merits of the existing and planned anti-counterfeiting initiatives in the EU Member States (and in the two Candidate Countries (CCs), Croatia and Turkey) and to understand what constitutes best practice in this area, for others to emulate.

This chapter is based on: a sample of 98 initiatives identified by the network of country experts assisting this study, used to illustrate practice amongst the countries of the EU (but not intended to be an exhaustive list of such schemes); the results of the SME and Sectoral Surveys, which posed questions about the awareness of public and private initiatives amongst companies and trade associations; and research findings from available literature describing relevant projects.

The sections in this chapter are organised as follows:

- Section 4.2 examines, country by country, the principal IPR-related initiatives and activities that have been put in place.
- In section 4.3 the findings of the surveys conducted for the study are discussed.

4.2 Overview of anti-counterfeiting initiatives in the EU and CCs

Overall, it is disappointing to note that the current policy debates in many countries are focused to a large extent on the scale of counterfeiting rather than on initiatives to support companies in effectively addressing the problem of IPR abuse. Conferences and seminars undoubtedly have a contribution to make in raising the interest of public authorities and private stakeholders alike in exploring and developing anti-counterfeiting initiatives. Although it is difficult to establish a relationship between such events and the number of support measures, it is

Box 1: Round Tables on Counterfeiting (Belgium)

The **Round Tables** on counterfeiting have been organised, bringing together the public bodies, the customs, the professional federations and IPR owners. These discussion platforms are considered by both the private and the public sector as useful tools to exchange insights on counterfeiting issues in a structured way

noted that the number of initiatives has been growing rapidly in recent years. Of the total of 98 initiatives identified in support of this study, the majority have been launched in the past five years.

Information about the number of future events on IPR suggests that interest in anti-counterfeiting measures is likely to grow in the immediate future. It is to be hoped that this trend will provoke an equal measure of debate on how to improve the various support mechanisms for SMEs.

Box 2: Innovation Protection Programme (Austria)

The project provides to Austrian companies **support and assistance** in protecting their intellectual property rights (IPR) in emerging markets - mainly in China. In case of evidenced infringement, Austria's principal business-focused funding agency AWS develops an enforcement and litigation plan detailing the form and scope of AWS's involvement. Within the scope of these activities, AWS offers support by, for example, consulting its local networks and alliances.

<http://www.awsg.at/ipp>

One difficulty in identifying counterfeiting support initiatives addressed to SMEs is the fact that such activities are incorporated into other types of initiatives, such as providing support for IPR protection in general. This example (Box 2) shows that enforcement and litigation activities can be supported in the scope of an Innovation Protection Programme.

In order to combat counterfeiting more effectively, newly-created working groups seek the involvement of the private sector and particularly specialists in IPR protection. This type of network ('Platform Against Product Piracy') has recently been established by the Austrian branch of the International Chamber of Commerce. The international network of the ICC can be considered an important advantage, as the platform can refer to the experience of international experts and is able to react quickly international infringement cases.

Another form of SME support initiative, highly appreciated by representatives of the private sector, is the practical services offered by the anti-counterfeiting organisations (Box 3). Among the reasons that companies consider such forms of co-operation with anti-counterfeiting organisations advantageous are, first, that these organisations cooperate actively with the enforcement organisations; and second, the services the organisations offer in the event of counterfeiting cases are relatively inexpensive and therefore accessible for SMEs. However, the associations raise concerns about the slow speed of handling counterfeiting-related cases by the courts and the fact that many complaints are not pursued because of difficulties related to the location of counterfeiter.

Box 3: The German Business Action Group against Product and Trade mark Counterfeiting

The Group (APM) has been the leading organisation in Germany in fighting against product and trade mark counterfeiting spanning different branches of trade since 1997. APM works on different levels against brand and trade mark counterfeiting. Besides **general public relations** and the support of politics and authorities, APM attends to the **information exchange** and to a limited extent **supports its members** in cases of violation of intellectual property rights, for example through internet monitoring activities and the use of investigative teams.

<http://www.markenpiraterie-apm.de/>

Box 4: Support to the Enforcement of Intellectual Property Rights (Czech Republic)

The aim of this project is to update and upgrade the existing **information system**. Another task is to derive a new methodology for enforcing intellectual property rights in the Czech Republic and a model for co-operation between institutions that deal with IPR enforcement.

<http://www.dusevni.vlastnictvi.cz>

The EU12 Member States (formerly referred to as the new Member States) have recently begun to address and solve problems related to their systems of IPR protection. One type of measure supported by these countries is aimed at upgrading the enforcement of IPR (Box 4). There are also several initiatives to assist SMEs in protecting their IP rights. Poland provides an interesting case, as it supports a range of actions including support to business associations, a review of existing jurisprudence and the implementation of an IT system to support enforcement officers; also regular activities by the Patent Office to raise awareness, for example a competition for the best masters and doctoral dissertations in the field of IPR. In addition there are

plans to launch a pilot project enabling SMEs to meet the costs of IPR protection abroad. Specifically, this support covers the costs involved in registering inventions, utility models, industrial designs and trade marks so as to achieve international protection. One of the eligible costs is the registration fee for inventions, trade marks and industrial designs at the Chinese Patent Office.

In common with the other EU12 Member States, the two CCs (Croatia and Turkey) have developed SME support initiatives to tackle IPR abuse. Although there is no special initiative targeting counterfeiting in Croatia, several State bodies, in co-operation with the private sector, are fighting counterfeiting as a part of their regular activities. Meanwhile in Turkey the Patent Office has since 2002 been organising an intensive promotion campaign (Box 5).

The leading countries in combating counterfeiting and other IPR abuses are France and Germany. In 1995, France established the National Committee against counterfeiting (CNAC) to enhance the effectiveness of the national plan on IPR. On the one hand, CNAC coordinates the actions conducted by different public authorities and representatives of several industrial sectors in the fight against counterfeiting. On the other, it aims to ensure the proper coordination and exchange of information between public bodies and industry.

In co-operation with the Ministry of Economy, Finance and Industry, the National Institute for Intellectual Property (INPI) and the French Assembly of Chambers of Commerce has updated leaflets advising SMEs on how to fight counterfeiting. In addition the Ministry is currently preparing a special guide targeted at SMEs titled 'Enterprises and the defence of intellectual property rights' in co-operation with France's professional federations.

In April 2006 the Ministry of Economy, Finance and Industry, together with the National Institute of Patent Rights and the National Anti-Counterfeiting Committee, launched a major communications campaign designed to engender a sense of responsibility in the French public on counterfeiting issues. It also provides support for local training and awareness-raising initiatives on IPR issues for SMEs,

Box 5: IPR Promotion Campaign (Turkey)

Turkish Patent Institute (TPE) is the main governmental body responsible for the management of IPR issues in Turkey. An intensive **promotion campaign** is being executed by the organisation in the last 4 years. Meetings and training seminars are organised by TPE staff. They are working together with many NGOs for these events. 24 help desks have been established in different cities and in 2005 trainings have been provided to more than 5,500 people.

<http://www.tpe.gov.tr/>

Box 6: Regional Fund of Industrial Property Diffusion (France)

The INPI can give its support for the programme to a total value of 50% maximum of the committed expenditure and the project can profit from the financial support of other partners (local or territorial communities, State, etc). Types of actions supported by the FRDPI include: setting up of **conferences, workshop, training schemes; support to companies; IPR diagnoses; development of teaching and communications tools.**

<http://www.inpi.fr/>

entrepreneurs, research centres, researchers and students (Box 6). Following the launch, it was reported that 63% of those who had seen the campaign's television advertisements were tending to buy fewer counterfeit products and 55% were said to mistrust them to a greater extent than previously (source: poll by TNS Sofres, June 2006).

The French General Direction of Treasury and Economic Policy (DGTPE), Customs and the National Institute of Intellectual Property have set up a joint network of 35 'counterfeiting' experts in economic missions, so far covering 75 countries. They have also co-published a bi-monthly leaflet 'Intellectual property and the fight against counterfeiting'. The Union de Fabricants (Union of Manufacturers) also takes an active part in providing solid information on products as well as a broad

knowledge of the development of counterfeiting in Asia.

In May 2006, on the occasion of the visit by Federal Chancellor Angela Merkel to China, the Confederation of the German Textile and Fashion Industry (Gesamtverband der deutschen Textil- und Modeindustrie e.v. or Gesamtverband Textil+Mode; www.textil-mode.de) signed, in Chancellor Merkel's presence, an inter-trade agreement with the umbrella organisation for the Chinese textile industry. Both signatories to the agreement committed themselves to the protection of intellectual property. The organisations undertake to ensure, *inter alia*, that exhibitors are prohibited from participating in trade fairs if they are spotted with counterfeit products. While this initiative has the potential to serve as a model for other industrial sectors, there is lack of information about its direct outcomes.

There is also a growing interest in Germany in developing innovative solutions for protection against piracy. With the funding initiative 'Innovations to combat piracy' (Innovationen gegen Produktpiraterie), the Federal Ministry for Education and Research promotes co-operative research projects between companies (in particular SMEs) and research institutes. These projects seek to develop innovative solutions for protecting companies against piracy (Box 7).

Box 7: Innovations to combat piracy (Germany)

The initiative focuses on producers of capital goods and seeks – through **publicly funded research projects** – to enable them to develop effective concepts for protecting against piracy, for example through approaches that integrate aspects of design, production and information technology within their highly complex machines and facilities which are in demand worldwide. The objective is to attain clear technological leadership in the field of 'product-integrated copy protection'. The announcement of the initiative 'Innovations to combat piracy' forms part of the Federal Government's High-Tech Strategy.

<http://www.bmj.bund.de/>

With regard to planned actions, the Markenverband Association, which represents the interests of trade mark owners, plans to launch in 2007 an online information platform for consumers and to establish a trade mark research tool for Customs and police authorities to make it easier to establish quick contact with rights holders when potentially pirated or counterfeited goods are discovered.

Meanwhile the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik- und Elektronikindustrie e.v. or ZVEI) offers its members emergency legal services to combat piracy and counterfeiting at trade fairs.

Although there are a number of IPR-related initiatives in the UK, Britain has in the past been less active than some other EU countries in designing policy instruments aimed specifically at helping SMEs. However amongst the pro-SME measures recommended by the influential Gowers Review, published in December 2006, is the recommendation of formal collaboration between the UK Intellectual Property Office (UK-IPO, formerly UK Patent Office) and the Business Links by replicating the French 'IP Genesis' scheme (Box 8).

Box 8: IP Genesis: Pre-diagnosis of Industrial Property (Pré-diagnostic propriété industrielle) (France)

Pre-diagnosis enables an enterprise to evaluate its industrial property portfolio. It is aimed at very small, small and medium enterprises. The pre-diagnosis is conducted by an expert of the National Institute of Intellectual Property (INPI), a specialist in industrial property or a consultant proposed by the INPI. The costs of the service are entirely covered by INPI. Approximately 200 pre-diagnosis evaluations were made in 2004.

<http://www.inpi.fr/>

Box 9: Gowers Review (United Kingdom)

The connection between the UK's Regional Development Areas and the Business Links (an official government service, providing advice and information for new and small businesses) in terms of funding provided should be improved. Better advice can then be provided to SMEs on where to find financial support within the boundaries of State Aid rules under Community law. This will complement measures in Scotland, Wales and Northern Ireland. These should be available to SMEs and lone inventors and should focus especially on linking with advice on obtaining IP abroad in order to expand UK firms' activity in international markets.

<http://www.hm-treasury.gov.uk/>

intelligence between different agencies; improve training for those working at the front-line; better co-ordinate the agencies involved in the fight against intellectual property crime; and monitor progress and success by publishing assessments annually. Furthermore, the UK Patent Office has been involved in the training of enforcement officers and has produced numerous reports on IP systems around the world, including the UK-IPO's 'Roadmap' booklet for UK businesses to help them protect and enforce their rights in China (Box 10).

This involves a free IP audit for SMEs, especially very small companies, and achieves high customer satisfaction. The Gowers review also recommends easing the task of SMEs in finding financial support, particularly those doing business overseas (Box 9).

A recent significant milestone in Britain was the launch of the National Strategy IP Crime Strategy by the UK Patent Office. The UK's National IP Crime Strategy brings together rights owners, police, trading standards and customs to: increase the sharing of

Box 10: Enforcement Roadmap for businesses operating in China (UK)

The new UK Intellectual Property Office (UK-IPO) guide 'China, an Enforcement Roadmap', offers guidance to the Chinese Intellectual Property protection and enforcement system.

Aimed at businesses currently operating in China or intending to do so, the guide offers practical and effective help on how to protect and enforce intellectual property rights, using the current Chinese system. It is intended to help 'prevent businesses from making costly mistakes by providing a better understanding of the Intellectual Property enforcement systems and key contacts in government and enforcement agencies'.

<http://www.ipo.gov.uk/press/press-release/press-release-2007/press-release-20070411.htm>

Box 11: FALSTAFF - Fully Automated Logical System Against Forgery & Fraud (Italy)

In 2004 the Agenzia delle Dogane created an **electronic databank** of original products (especially those exposed to counterfeiting) produced in Italy. When a company claims the rights to protect its products, it automatically generates a 'card' reporting all the technical features of the original product. The databank includes pictures of products and their typical 'commercial itineraries'. All the information uploaded in the databank are passed to customs offices.

<http://www.agenziadogane.it/>

Italy has recently introduced an innovative approach to combat counterfeiting by creating an electronic databank of original products. This type of initiative has also been developed in other countries including Germany, Spain and Portugal. The databank is continuously updated by companies and allows customs to compare the features of original products (Box 11). In 2005, the initiative received a Honourable Mention at the eEurope Awards 2005 for being the most ambitious and innovative initiative against counterfeiting. Taking into account the record of initiatives Italy has developed, it belongs to a group of most active countries in tackling the problem of counterfeiting. In 2007 the Ministry of Economic Development with the support of the Institute of External Commerce (Istituto per il Commercio Estero - ICE) plans to establish anti-counterfeiting desks in overseas markets where counterfeiting is particularly

common. In general, the public authorities are much readier to support initiatives of the awareness-raising type than to develop direct support measures for SMEs. This is not to deny the positive impacts of such campaigns, but it is necessary to start developing a new generation of instruments, specially designed for SMEs, in order to respond effectively to the challenge of counterfeiting and other IPR abuses.

Box 12: Pirated Goods Exhibition (Finland)

The **exhibition** will present counterfeited products along with the originals. The exhibition will demonstrate the wide variety of goods that are illegally copied and the extent to which counterfeited products can permeate the everyday lives of consumers. Participants in the exhibition will include fashion houses, fishing equipment producers, drugs companies, etc.

Interestingly, Finland has been supporting such initiatives to a large extent (Box 12).

Other countries follow a similar approach in relying on public awareness initiatives. For example the Portuguese Industrial Property Office, in conjunction with the police authorities responsible for fighting against counterfeiting, plans to launch a portal. Its purpose is to raise awareness through disseminating technical and scientific information to help different economic players (and particularly companies) to better understand the problem and take appropriate anti-counterfeiting actions.

In addition to public initiatives, business organisations play a crucial role in providing support to SMEs, which find such support particularly valuable as they are often dissuaded from bringing cases against a larger firm able to retain or employ specialist IPR lawyers and which have the financial wherewithal to afford significant legal costs (Box 13).

It is noteworthy that Finland has been successful in involving the business sector in the activities organised by the universities. IPR University Centre is an institute established in 2000 by the University of Helsinki and four other universities. Its aim is to provide training and to undertake research into

Box 13: Anti Copying In Design (UK)

This is a 1000+-member trade organisation spanning 25 industry sectors within the creative industries representing designers and manufacturers. ACID's purpose is to assist its members in the protection, exploitation and commercialisation of their intellectual property. ACID's core objectives are: **education, prevention, deterrence, support, alignment, and lobbying.**

<http://www.acid.uk.com/>

Box 14: Course on Intellectual Property Protection (Slovenia)

The initiative consisted of a series of **lectures** (seminars and workshops), held at the seat of the University of Ljubljana. The main objective of the initiative was to present to the public (in particular to young entrepreneurs) all forms of intellectual property protection (patents, industrial design, trade marks, copyright), as well as procedures for their acquisition and their enforcement.

<http://www.uil-sipo.si/>

intellectual and industrial property rights. Similar initiatives have been initiated in countries including Estonia, Italy, Turkey and Slovenia (Box 14).

Spain, Poland and Latvia have recently taken initiatives to draft guidelines on the streamlining of legal procedures related to cases of counterfeiting and other IPR abuses. In Poland a review of cases involving crimes against

IPR protection took place during 2005. The objective was to prepare a document for the public prosecutors' offices on the methodological aspects so as to help reduce the length of such cases. Further information about the Spanish initiative is summarised in Box 15.

Box 15: Circular to Judges (Spain)

Because of the complexities of Penal Law, Spanish jurisprudence relating to counterfeiting and piracy was full of incoherencies.

The National Association for the Defence of Trade mark Rights (ANDEMA) proposed to the Director of Public Prosecutions the analysis of this jurisprudence and the creation of a clarifying **circular for use by judges**. This proposal was adopted and further developed in 2006.

It is also interesting to note that various forms of co-operation have been further strengthened. This reflects not only a gap in the existing support mechanisms, but also special interest by various organisations in joining the forces against IPR theft. One example is the recent agreement concluded between ANDEMA (National Association for the Defence of Trade mark Rights) and CEC (Spanish Commerce Confederation). In practice, this agreement establishes collaboration between SMEs and Industrial Associations to tackle counterfeiting by disseminating information, training and action plans.

Recently the Portuguese authorities have unveiled a plan to establish an Anti-Counterfeiting Unit. The aim of this initiative is to set up a working group bringing together relevant representatives of national authorities responsible for the counterfeiting issue, namely INPI - Portuguese Industrial Property Office; BF-GNR (Fiscal Brigade of the National Guard); DGAIC (National Customs); and ASAE (National Authority for Food and Economic Security), to achieve better co-ordination in the activities of these entities.

Closer co-operation is also being established between different countries with the assistance of the Community funding. For example the project to strengthen the Customs Service, funded in the framework of the Transition Facility 2004, was intended to strengthen the administrative capacity of the Polish Customs Service in the areas of training, strategic planning, organisation and administration. The project is implemented through twinning and co-operation with the Danish Customs Office. One of its components is to upgrade the IT system to support enforcement officers in their regular activities. The EU 5th Framework Programme (Box 16) has also contributed to the establishment of a European network of contact points for the promotion of innovation and IPR.

Box 16: Linking Innovation and Industrial Property (FP5, Luxembourg, Italy, Spain and Greece)

The aim the National IP Assistance Platform is it to be a **'one-stop shop'** for answering questions in relation to intellectual property rights, for providing IP information and for helping enterprises to understand IP issues and to efficiently implement IP policies in their business. It acts as a contact-point helping local actors to address intellectual property issues.

<http://www.liip.org/>

Working in close cooperation, the Office for Harmonization in the Internal Market (OHIM) and the Portuguese, Spanish, French and Italian Industrial Property Offices recently planned a series of events titled 'Roving Seminar on Industrial Property and Counterfeiting', which are being held in every participating country. The first events have already taken place in Portugal and Italy, called 'Community Trade mark and Design: Protection Strategies and Defence'. Anti-counterfeiting issues are an important topic in these discussions.

Box 17: Insurance covering court costs for counterfeiting of IPR (Sweden)

This is a cooperation project between Lloyd's (the Swedish Counterpart is Factor) and the Swedish Inventors' Association launched in May 2007. The insurance will cover court cost, which could appear in connections with disputes concerning counterfeiting of IPR.

<http://www.uppfinnare.se/>

Besides enhanced cooperation between various public authorities, private stakeholders and the business community, there is a need for direct measures to support SMEs in the fight against counterfeiting and other IPR abuses. Insurance covering court costs for the taking action against counterfeiting is an innovative approach in supporting SMEs' efforts to pursue the counterfeiters (Box 17).

Case studies dealing with the most interesting approaches in anti-counterfeiting measures encountered during this research are presented in Appendix F. Criteria for choosing these examples included favourable assessment from the country experts, novelty, and particular relevance for SMEs.

4.3. Sectoral Survey findings

SME Survey participants and representatives from the four sectors on which the study focused (automotive parts, textiles and clothing, mechanical engineering and toys) were asked their views on industry and governmental IPR initiatives as part of the Sectoral Survey. The objective was to contrast the extent of their awareness with the replies from the public and private IPR authorities, which were invited to describe their own initiatives as reported in the first part of this chapter.

According to the results of the survey, the respondents were mainly aware of two types of initiative: providing legal advice and IPR-related services. Yet knowledge about such measures was uneven: taking the provision of legal advice initiative as an example, awareness ranged from one-third of automotive parts respondents down to just over one in ten of those from the toys sector. And awareness was not reflected in an equal measure of approval, shown by a worrying finding that, overall, companies did not perceive the available measures to be particularly effective.

It was clear that companies had mainly heard of general public awareness initiatives and support to business associations, chambers of commerce or industry sector associations, which were aimed at providing advice and support for businesses. However there was a dearth of information about more specific initiatives such as assistance to businesses in conducting investigations into counterfeit goods, with just 4% of respondents saying they were conscious of such initiatives.

Overall slightly under a fifth of the respondents said that they were unaware of any initiatives whatever.

Box 18: RAPEX Rapid Alert System (EU)

RAPEX is the EU rapid alert system for all dangerous consumer products, with the exception of food, pharmaceutical and medical devices. It allows for the rapid exchange of information between Member States and the Commission of measures taken to prevent or restrict the marketing or use of products posing a serious risk to the health and safety of consumers. Both measures ordered by national authorities and measures taken voluntarily by producers and distributors are covered by RAPEX.

http://ec.europa.eu/consumers/dyna/rapex/rapex_archives_en.cfm

Turning to government programmes, the respondents of the Sectoral Survey from the mechanical engineering sector had particular difficulties in identifying effective initiatives, although there was confirmation of the active role of the French authorities in their initiatives to promote IPR protection amongst SMEs. However respondents did not know of any government initiatives to provide companies with sector-specific support in China.

Only one initiative at EU or international level was considered by the respondents to be effective: the RAPEX programme (Box 18). Some respondents commented that it was a pity, however, that some governments do not make any use of it.

According to the toy sector representatives, government initiatives tend not to have a sectoral focus. France was cited by this sector also as being one of the most active countries in the fight against counterfeiting and mention was made of the Spanish government's creation of an Inter-Ministerial Commission for IPR.

Survey participants from the textile and clothing sector acknowledged several initiatives taken by various governments, citing, for example, a French tax credit arrangement and a Portuguese national IPR incentive system, the National IPR Incentives System (SIUPI). With regards to the French example, there are two incentives. One is specific for SMEs and the other is general for all companies.

For SMEs first, French government decided in December 2006 to give to 300 selected SMEs an amount of 7,000 EUR for the filing of their first patent, in order to assist them in protecting their rights. The second measure is open to all companies and allows (under certain conditions) a tax deduction for their R&D investments (including all costs engaged in relation with patent protection). Mention was also made of the anti-counterfeiting advice desks recently established by the Italian government at the Institute for Foreign Trade, offering a wide range of useful services (see above).

Two EU initiatives were considered to be the most effective by the textile and clothing sector: the Directive of 29 April 2004 ('directive on measures and procedures to ensure the enforcement of intellectual property rights') which was designed to help right holders combat counterfeiting and piracy by providing a level playing field for actions brought in any part of the EU; and a recent directive introducing penal regulations harmonised at European level to fight copyright infringements and pirated products.

5 Conclusions and Recommendations

5.1 Conclusions

5.1.1 The scale and effects of IPR abuse

Judging from the evidence of all the sources on which this study is based, it is clear that the infringement of intellectual property rights is a massive problem affecting most EU companies. Counterfeiting, the most overt, familiar and sensational aspect of IPR abuse, is a major part of the problem but by no means the only one: many problems result from illegal acts by a company's employees, partners and others entrusted with confidential information.

Four out of five of the companies we surveyed were significantly concerned about IP rights abuse and, in the case of the smallest companies, there is evidence that their very existence may be threatened by it. Three quarters had been affected by it and one in five could identify actual losses in sales due to it. In a small minority of cases lost EU jobs were also attributed to the consequences of IPR abuse.

This is echoed by the trade and business associations consulted for this study, as well as national governments and the EU, all of which have taken steps to help companies understand, resist and find solutions to the problems (as discussed below).

A common complaint concerned the less tangible forms of damage due to IPR infringement. While it is hard to put figures on these effects — other than to note the high numbers of companies which have experienced them — they are no less harmful. On a company scale, IPR infringement causes insidious and deadening impacts that include loss of reputation and the stifling of business initiatives and entrepreneurship, especially innovation and investment decisions. One in four companies cited IPR abuse as a reason for their reluctance to invest overseas, while others are deterred from selling or investing in new markets because of the high level of uncertainty over the integrity of their IP rights.

Looking beyond the reports of individual experiences, it can be seen that IPR abuse is much more than a headline-grabbing story. Apart from being a significant contributor to the black economy, corruption and organised crime in every country, IPR abuse is a largely invisible barrier to world trade that impinges most on the smaller companies with their comparative lack of resources and influence.

Invisibility is one of the most difficult aspects for those who try to quantify the level of infringement. This study concentrated more on practical solutions than on gathering figures for all aspects of IPR abuse worldwide; but the statistics and opinions encountered during our research support the prevailing view that the level of infringement experienced in the EU is immense.

IPR abuse is a hugely significant impediment to the EU's trade with the rest of the world, as well as between Member States. It fully merits the attention paid to it and would justify many more resources than are currently devoted to combating it.

5.1.2 How SMEs fight infringements

This study is aimed specifically at the problems for SMEs. A wealth of evidence, in this study and elsewhere, supports the view that SMEs tend to face a more difficult challenge in protecting their IP rights and fighting infringements than larger, well-resourced companies.

While this conclusion is unsurprising, a more unsettling theme encountered during our investigations was the number of companies (and the prevalence of the view) that small companies are incapable of resisting IPR abuse and ‘may as well just give up’. Evidence for this attitude may be seen in the high proportion of smaller companies choosing not to register their rights because they cannot see the benefits of doing so. For patent rights, this figure is 80% of EU SMEs according to some reports, consistent with our survey finding which suggest that only a fifth of smaller companies seek such protection in respect of China. (However the unfeasibility of, for example, clothing companies and other design-based firms which generate a high number of short-lived designs being able to register all or even most of them is understandable; and Chinese law groups designs within the category of patents, which may explain some of the statistics).

In our view the received wisdom that SMEs cannot protect or enforce their IP rights is outdated thinking that needs to be challenged. It is clear that many smaller companies do not take even the first logical step, which is to prepare adequately. The observations of our panel of China Practitioners (Appendix C), based on their actual experience of companies that have encountered problems in this market, show that many SMEs are doing business in China without making even the most basic of preparations such as IPR risk assessment. As the guidance in Appendix D (‘Existing types of IPR protection’) demonstrates, gaining a basic knowledge of the concepts of IP rights and their defence is straightforward.

We are sympathetic towards the familiar argument that many SMEs cannot afford to employ professional advisers such as lawyers to represent them in legal cases; but this, too, should not be an argument for inaction, despair or thinking that IPR protection is a ‘lost cause’. In Chapter 3 we show that there is a whole range of measures — mostly of the self-help variety — which companies big and small can take to help make IPR theft more difficult for the perpetrators. Yet our survey analysis suggests that only a minority of SMEs currently have commonsense plans of this kind to help defend their IPR. For example, it seems unexceptional that a company would wish to know something about those with whom it has commercial dealings, yet fewer than one in ten of our survey respondents reported that they carry out due diligence checks on contractors or partners.

A further problem concerns the reluctance of some companies to rely on normal commercial instincts when operating in (or with) unfamiliar and perhaps out-of-the-ordinary markets. Although not researched here explicitly, this failure is a well-known phenomenon that can lead business people into taking greater risks — and failing to apply routine safeguards. It probably accounts, in part, for the lack of simple defensive actions already noted. A robust, questioning approach serves most companies well in defending their IP rights, as in all aspects of commercial life.

5.1.3 Where to get help

It is clear from our research that the programmes organised by public authorities tend to be awareness-raising initiatives rather than measures directed at assisting SMEs. Where public initiatives are insufficient, business organisations play an important role in filling this gap. Non-official organisations such as sectoral bodies are, unsurprisingly, more likely to set up programmes aimed specifically at their constituencies of companies, which in turn we found to be somewhat more aware of industry association programmes than those run by governmental organisations.

Overall, official support for European Union SMEs in the fight against IPR abuse is lacking and needs further development. This observation is in line with a preliminary finding of the recent OECD study on counterfeiting and piracy: ‘While most countries appear to have adequate legal and administrative mechanisms for combating counterfeiting and piracy, enforcement actions have not been sufficient, as resources have been devoted to higher priority areas’ (OECD, 2007).

Two countries, France and Germany, seem to take the leading role in initiatives to help SMEs resist counterfeiting and other IPR abuses, while the UK-IPO ‘Roadmap’ for China is a positive step. Within the EU12 Member States progress in designing appropriate policy responses needs to be stepped up although we recognise that these countries (including Croatia and Turkey) have made a start in addressing and solving problems relating to IPR protection.

Turning to this study’s intention to compare the degree of awareness amongst companies and sectoral/business associations with the availability of programmes and activities we found within their own countries or sectors, it is disappointing to note that there was little evidence that SMEs are sufficiently aware of the various initiatives on offer. Whilst there were several mentions at business/sectoral association level of useful national initiatives, it is surely significant that one in five of the company respondents said they were wholly unaware of any such programmes whatever. Sample sizes and the usual limitations of surveys no doubt play a part in this discrepancy but the overall conclusion from this aspect of our research is that insufficient work has been done by governments and other parties involved to drill down to the smallest companies when offering IPR-related initiatives to industry.

From the SME perspective — on the evidence already mentioned that many small companies consider that fighting, or even taking steps to prevent, IPR abuse is a ‘lost cause’ — it is hard to avoid the conclusion that many SMEs are apathetic; and that this extends to their failure to make it their objective to search for available programmes, initiatives and other sources of information and to chivvy their governments, industry associations and sectoral bodies where these are absent or inadequate.

5.1.4 China

This country is singled out for mention here because most of our respondents and advisers referred so consistently to problems in that market. We recognise, aided by the insights of the China Practitioners, that huge strides have been made by the Chinese authorities to overhaul the legal — and, to some extent, the enforcement — climate; but the fact remains that there is still a wide gulf between the excellence of

China's comprehensive IPR laws (the 'theory'), and the actual experience (the 'practice') of companies doing business there or fighting the effects in home markets of exported counterfeits.

It would be easy to be unfair to a nation that is experiencing the predictable difficulties, as well as the benefits, of an almost unparalleled rate of economic growth; and it should also be borne in mind that the second most complained-of market in our surveys, in terms of the scale of IPR abuse, was 'home or EU'. And, far from being just a foreigner's problem, it is estimated that nine out of ten IPR cases in China are brought by Chinese businesses against their fellow countrymen.

In 2006 customs intercepted more than 250 million counterfeit and pirated articles, involving 36,486 cases in the EU. This represents an enormous increase compared with the previous year, when customs seized 75 million articles, involving 26,000 cases. In terms of overall quantities seized, China remains the main source for counterfeit goods, with over 80% of all articles seized (Taxud, 2007).

Nonetheless, the reality is that much of the EU's manufacturing is being done in China and that is where most complaints arise. As R&D, too, is moved to China, the challenges for IPR protection will probably become greater. The EU Trade Commissioner has stated that about two-thirds of the EU's intercepted counterfeits are from China and we agree with all that this implies about the need to pay special attention to China in the context of IPR infringement.

5.2 Recommendations

5.2.1 Attitudes

There should be a fundamental change in public and corporate attitudes towards IPR protection and enforcement within the EU, informing and influencing the design of future initiatives aimed at helping SMEs. The following elements are needed:

- A public 'zero tolerance' approach towards IPR infringement so that it becomes as unacceptable for an individual to purchase a counterfeit consumer product as for his or her business to infringe another company's IP rights.
- A wake-up call to persuade SMEs that it is possible to resist IPR infringements in worldwide markets and at home and that much of the effort required should come from within the organisation.
- A campaign to raise companies' expectations as to the level of assistance they should expect from within their own sector, country or the EU by publicising examples of best practice.

5.2.2 Delivery of assistance

Based on examples identified in this study, the following initiatives seem worthy of further consideration for wider adoption within EU countries:

- Reduction of Community Trade Mark registration fees for SMEs.

- Lobby for the introduction of a Community Patent, along the same lines as the Community Trade Mark and Design.
- The use of country-specific advertising campaigns, as in the recent French advertising campaigns.
- Assistance to SMEs that currently make no use, or inadequate use, of IP protection measures such as the French Pre-diagnosis initiative.
- Databank of original products, as in the Italian FALSTAFF initiative.
- Development of IPR training programmes for SMEs similar to those developed in the US.
- The establishment of 'help-desk' allowing companies to obtain first hand information from government specialist on IPR ready to assist them by phone, as the US toll-free hotline.
- The introduction of court costs insurance schemes, similar to the instrument based on public-private partnership.
- The UK's 'China Enforcement Roadmap' initiative.

Irrespective of such initiatives, companies should be encouraged to adopt self-help measures and not expect to rely mainly on external assistance in achieving the protection of their intellectual property. Each company, of whatever size, should nominate a person as its 'IPR manager'. This person need not be an expert or legally trained but should have the task of understanding the challenges to the company's intellectual property and gathering, and disseminating internally, information about the various forms of assistance available to the company from its own and external resources.

5.2.3 In-country support

The impending 'help desk' initiatives planned by the EU in China are fully supported. Business people, and not just lawyers, should be recruited under this initiative to play a full-time role in providing in-country assistance to foreign companies operating in China. Finally, there is also a need for direct financial assistance for SMEs to protect their rights in countries such as China, India and Russia.

Appendix A: Analysis of Surveys

Introduction

This appendix presents the results of the two on-line surveys undertaken as part of the research for this study, one addressed to SMEs (the SME Survey), the other to sectoral and business associations (the Sectoral Survey). The objectives of these surveys were to:

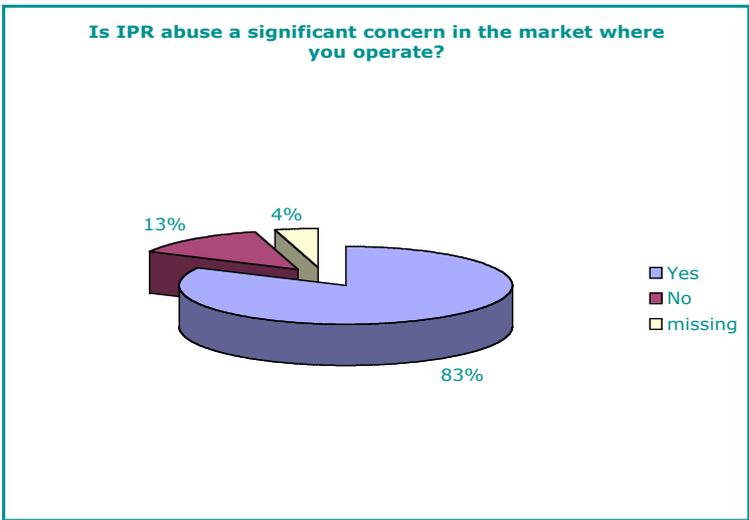
- obtain information about the extent and nature of IPR abuses experienced by European Union SMEs across all sectors as well as in specific sectors (ie automotive parts, mechanical engineering, textiles and clothing and toys);
- identify effective solutions to tackle counterfeiting and other IPR abuses;
- gauge the extent of awareness of EU governmental and non-governmental initiatives to assist SMEs to protect and enforce their IPR.

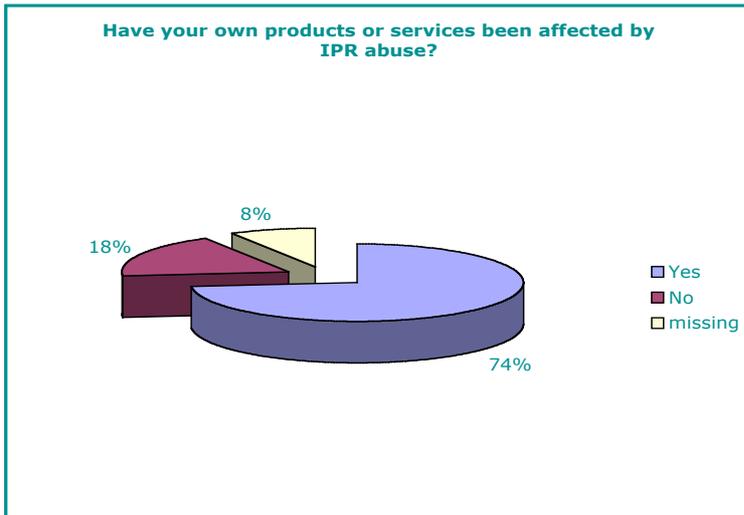
This report is based on replies from 143 respondents which were retained for analysis, together with a further 12 written contributions from SMEs. The most heavily represented sector was textiles and clothing (45 respondents) followed by mechanical engineering (40), 'other' sectors (37), toys (9) and automotive parts (6). The top five countries in terms of responses were Austria, France, Italy, Germany and the UK. In our sample, the majority of respondents were from small and medium-sized businesses or their representative associations. On average 70% of respondents employed fewer than 250 people. In addition, 24 completed surveys by sectoral and business associations were analysed.

The principal findings are presented in this section, together with analysis and comment.

Scale of IPR infringement

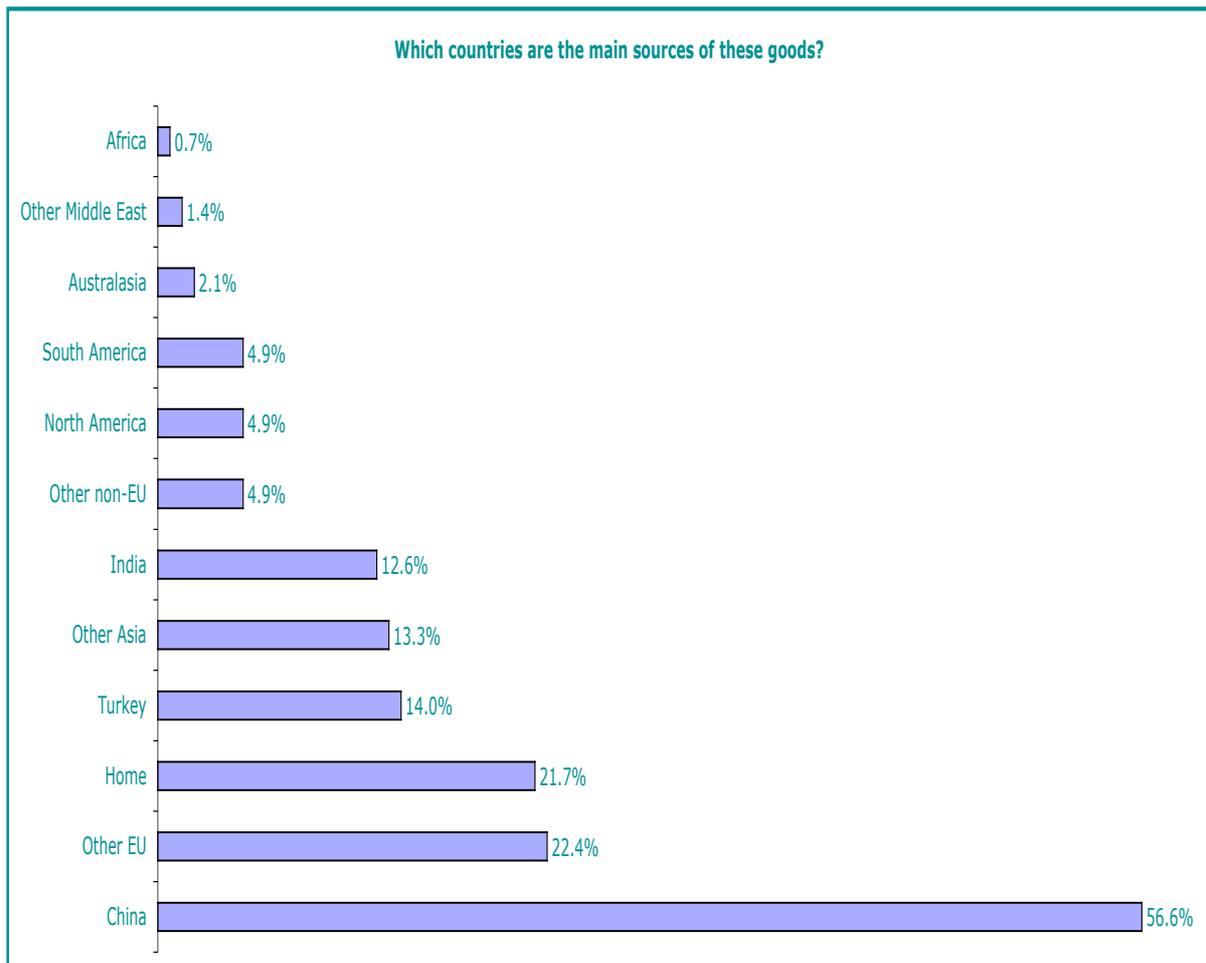
Most respondents (83%) said that IPR abuse was a significant concern, with only 13% disagreeing. A large majority (74%) stated that their own products or services had been affected by IPR infringements. There were no significant differences between the sectors; it is clear that companies of all types perceive IPR abuse to be a significant obstacle.





Location of infringements

China was felt to be the main source of counterfeiting, followed by other EU and home markets, then Turkey, other Asian countries and India as the main producers of such goods.



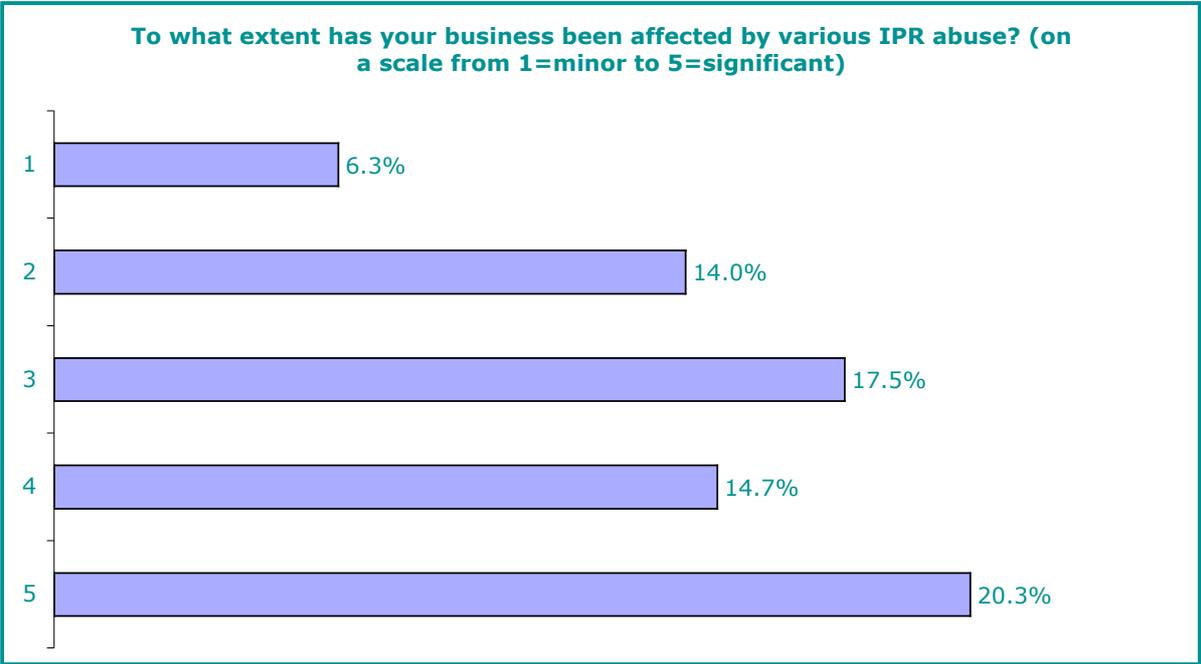
* Multiple answers were possible so figures do not add up to 100.

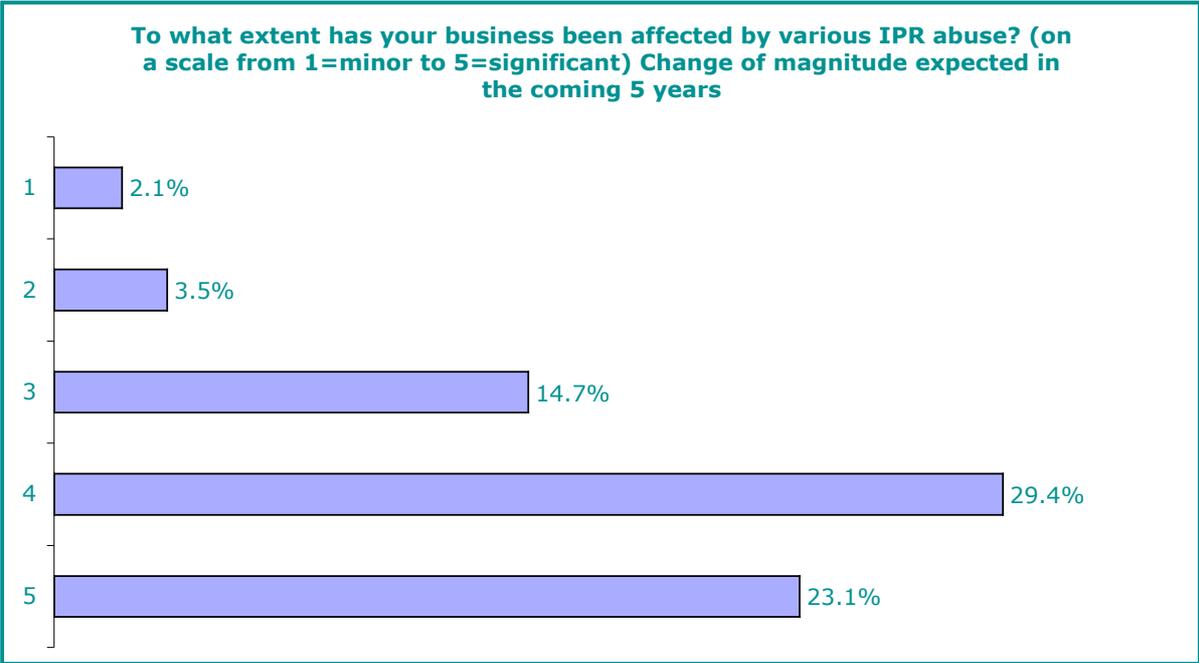
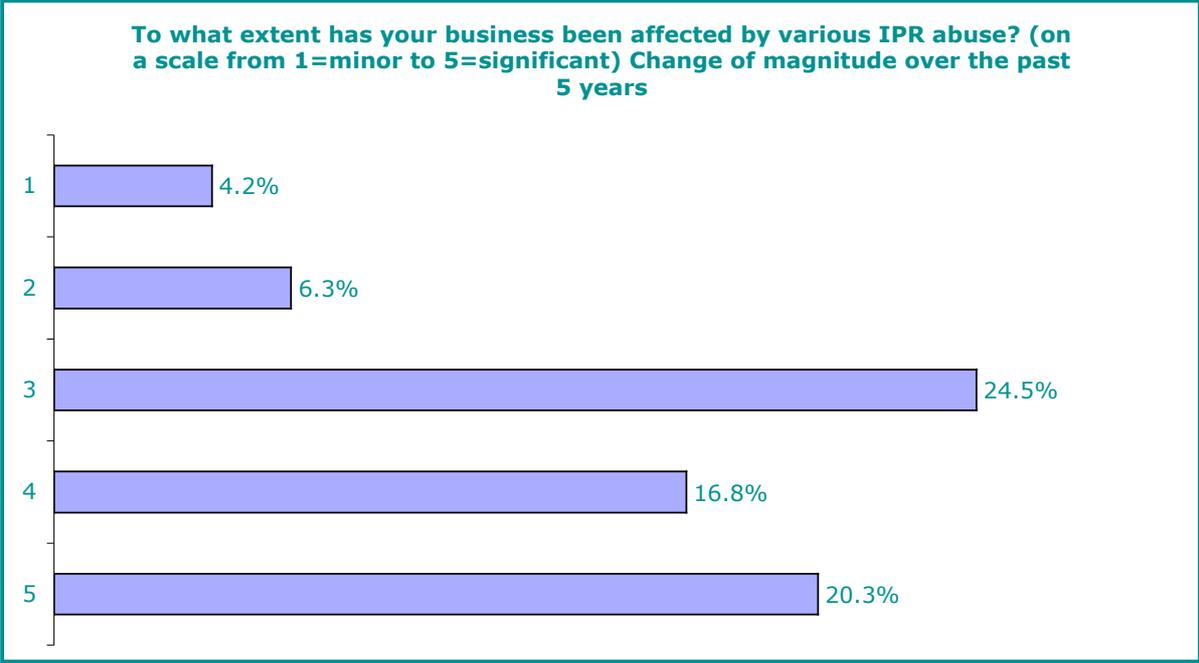
Home markets were of the biggest concern to the toys sector, with most respondents from this sector (67%) saying their home markets were affected, followed by textiles and clothing (53%), 'other' sectors (49%), mechanical engineering (38%) and automotive parts (33%).

Analysing inter-sectoral differences, most of the respondents from the toys sector (89%) considered that China was the main source of counterfeit goods, followed by 'other' sectors (62%), textiles and clothing (56%), mechanical engineering (55%), automotive parts (33%). Thus apart from toys, all 'other' sectors experience a large amount of counterfeiting derived from countries other than China. For example it is known that for automotive part producers the other hot spots for counterfeit products are South-East Asia, the Middle East (especially Dubai), Turkey and Eastern Europe.

Effect on business

Approximately one fifth of respondents considered that their businesses were affected significantly by IPR abuse. When asked to describe the magnitude of the problem over the past five years, few answered that the significance of IPR abuse had been minor. Invited to predict the change in coming years, companies evidently fear that the problem of IPR abuse and its effect on their businesses will increase: 23% of all those surveyed IPR abuse would affect their businesses significantly, while just 2% predicting that the effect would be minor.



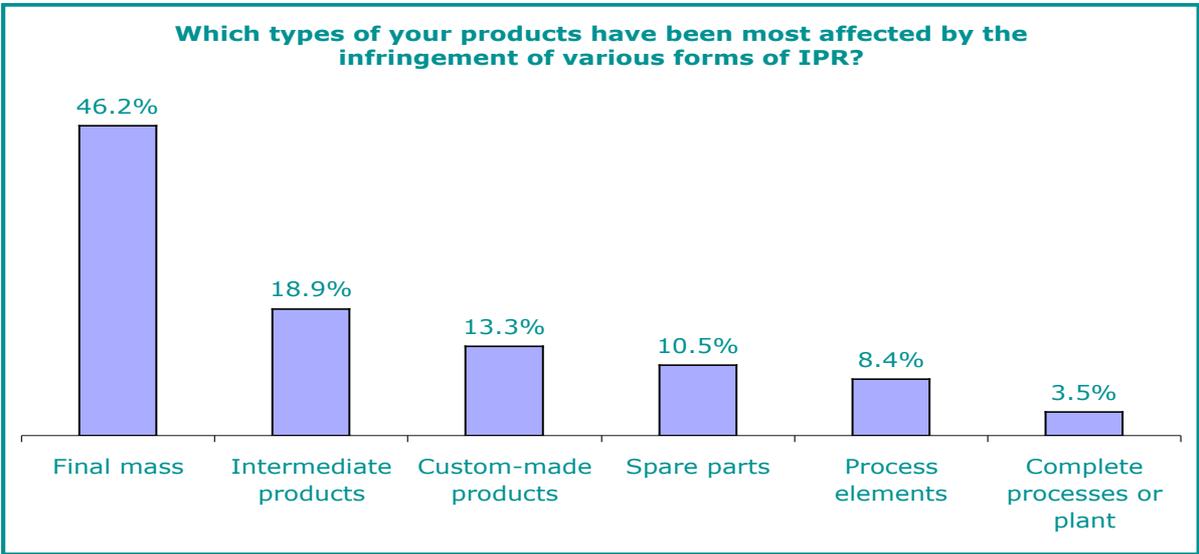


Members of the mechanical engineering sector were most concerned about the future with 65% concerned that their businesses would be significantly or very much affected by counterfeiting in the next five years. For the same levels of concern, results in the remaining sectors were toys (56%), 'other' sectors (54%), textiles and clothing (47%) and automotive parts (33%). This shows unequivocally that most companies think matters will get worse.

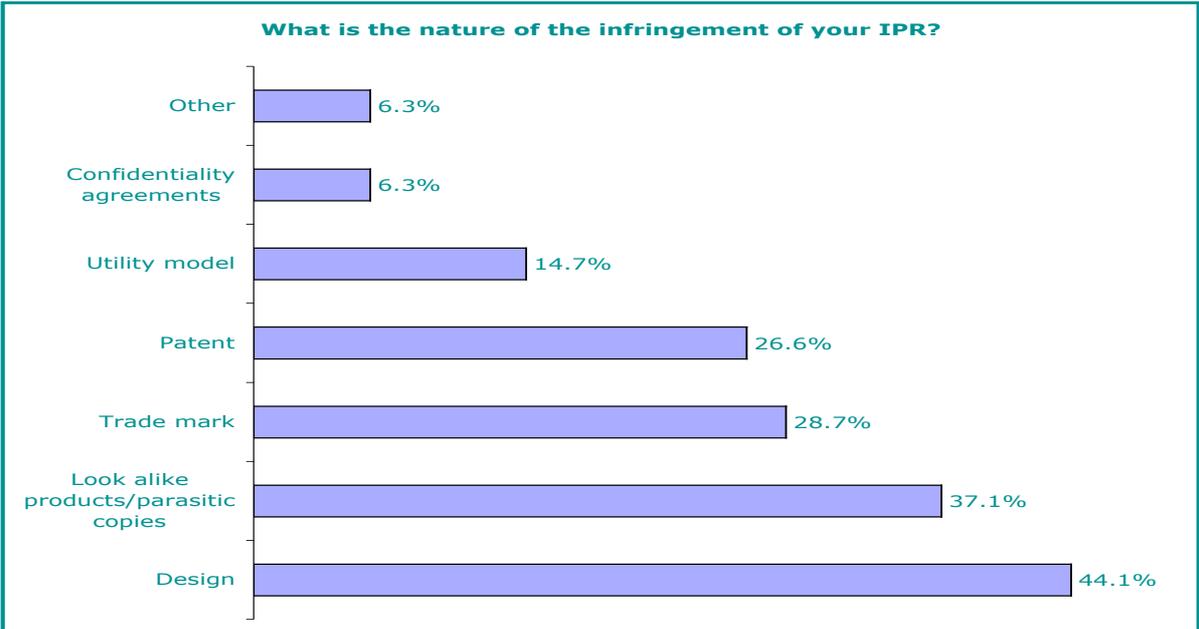
Types of product

As can be seen, when asked about the types of product most effected (eg intermediate, spares, custom-made and so on) a large majority of respondents said final mass products were most often affected by IPR infringements, rather than complete process or plants. However 13% of respondents reported that custom-made products were the most affected.

The survey results also confirm that IPR infringements concern mainly designs and look-alike products, followed by trade marks and patents. There were no unexpected sectoral differences: it was mainly those from the toys sector who pointed to look-alike products as an infringement of their IPR, whereas most of the participants from the mechanical engineering sector said that they had mainly experienced infringements of their patents and trade marks.



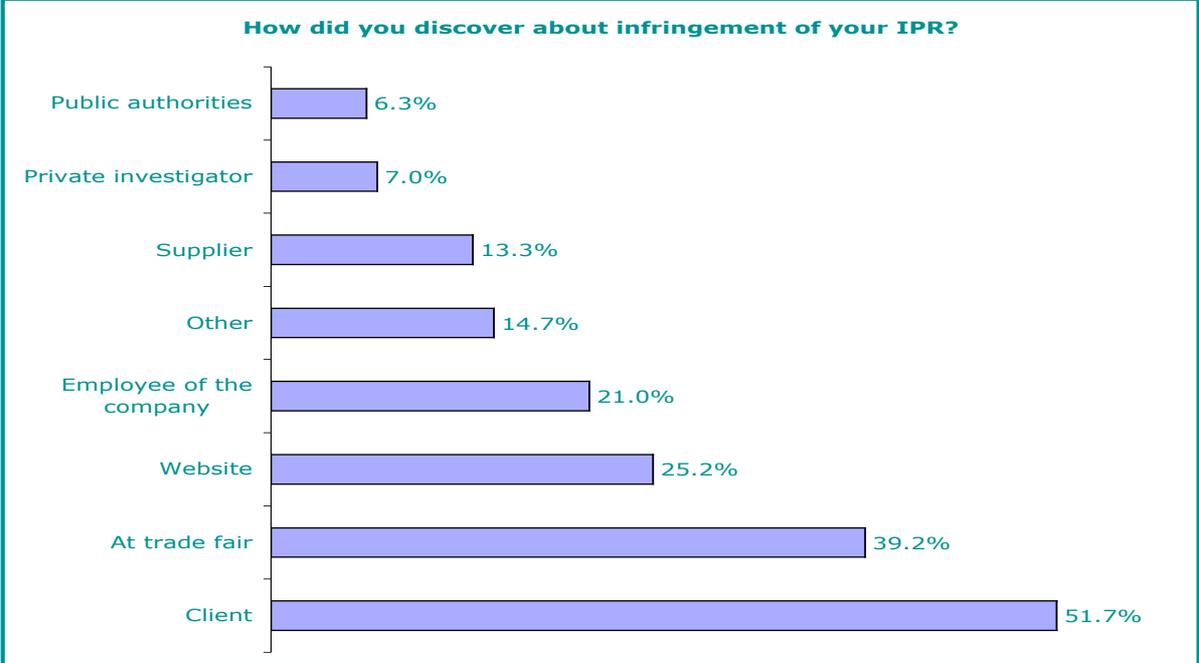
* Multiple answers were possible.



* Multiple answers were possible.

How infringements are discovered

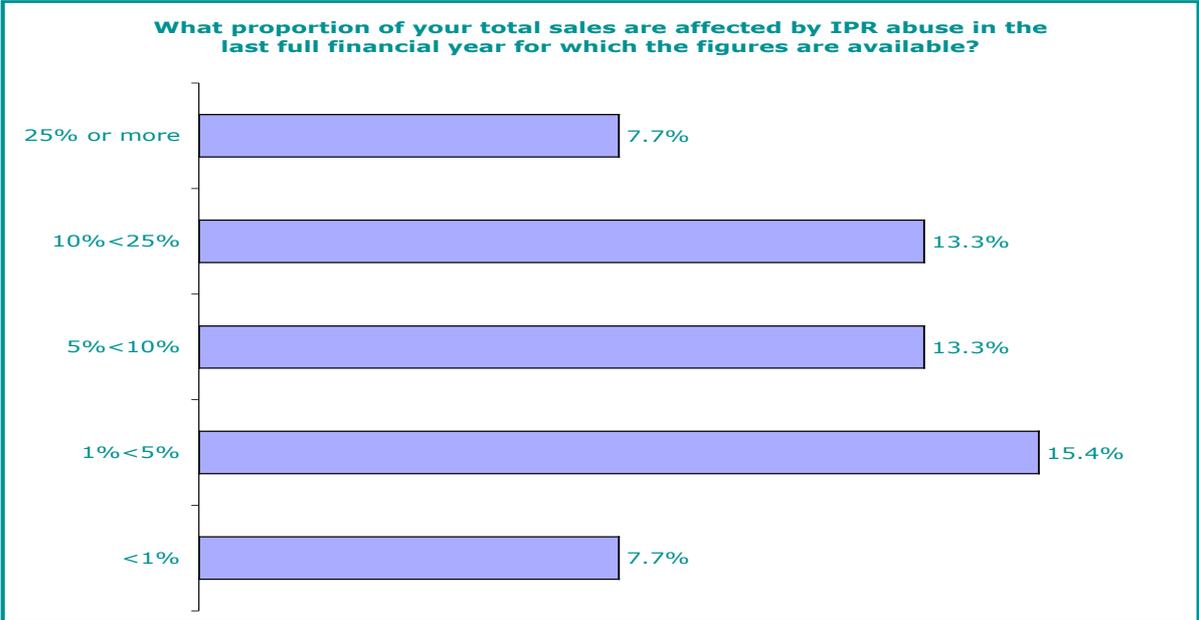
An aspect of particular interest is that IPR infringements are discovered most frequently by clients and during trade fairs — but rarely by the public authorities. This finding would seem to support those who call for the development of additional tools such as databanks of legal products to enable the enforcement authorities to be more effective.



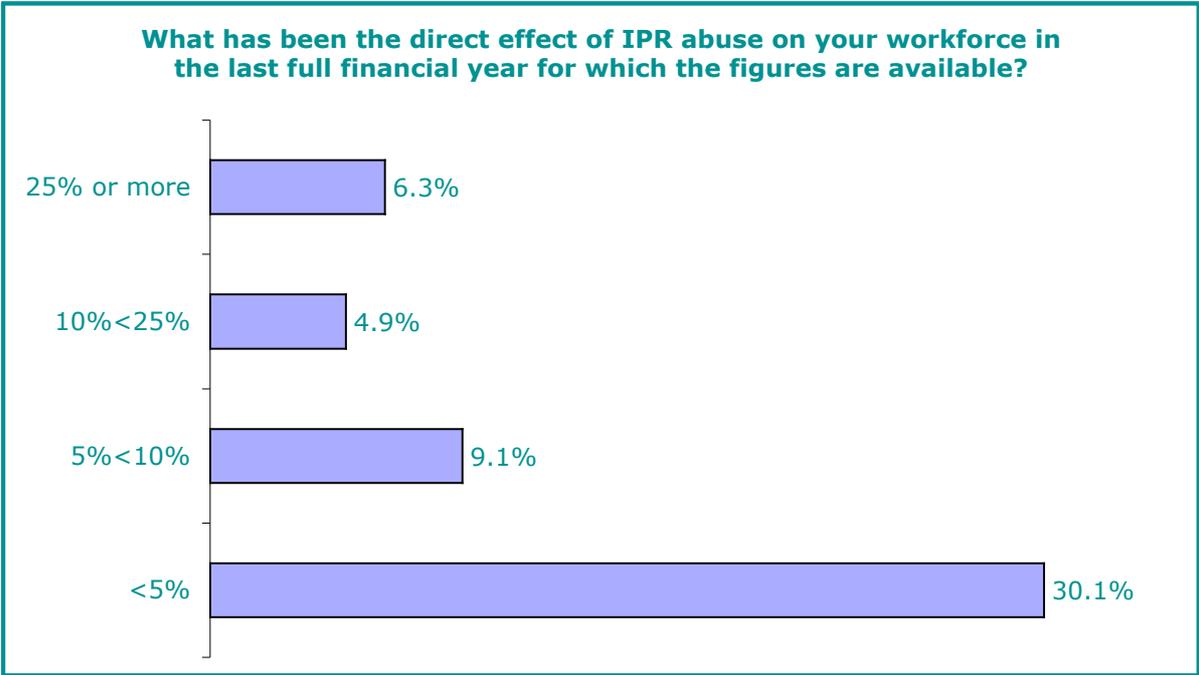
* Multiple answers were possible.

Losses due to IPR abuse

27% of respondents said that they estimated the effect on their total sales to be in the range of 5%-25%. Using the same range, sectoral effects were 33% in the textiles and clothing sector, followed by mechanical engineering (33%), toys (22%), automotive parts (17%) and 'other' sectors (16%).



Most participants said the net effect of IPR abuse on workforce numbers was less than 5%; however 9% of companies estimated this to be in the range from 5% to 10%. Of these, 15% were from the mechanical engineering sector and 11% each from textiles and clothing, and toys.



Sectoral viewpoints on losses

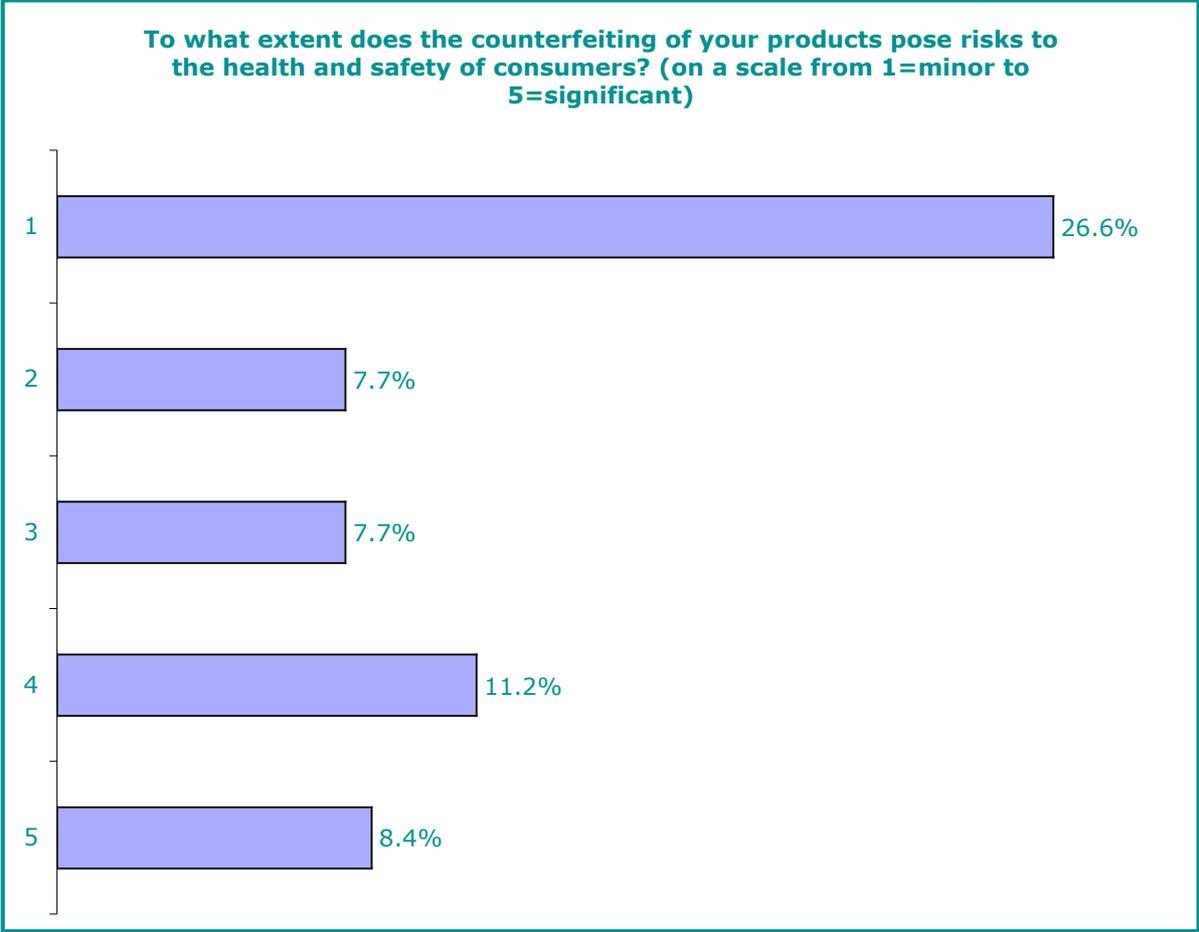
The sectoral and business associations were also asked about the quantifiable effects of counterfeiting. In the mechanical engineering sector it was deemed very difficult to give an accurate picture, for several reasons: first, most SMEs do not claim to be victims of counterfeits; second, even if they are victims, they tend to ignore the existence of counterfeiting and third, the counterfeiting industry is a black market so figures are inherently unreliable. The most recent VDMA study (2007) showed that 27% of the companies affected suffer losses of more than 5%, while for 18% the losses are greater than 10%. In the SME Survey just over one-fifth of companies reported the loss of sales had been greater than 10%.

The toys sector representatives also felt it was difficult to estimate the impact of IPR abuse. It was estimated that 5%-7% of French companies producing toys have been affected by counterfeiting, while according to a study of Miguel Hernandez University (2003), counterfeiting caused the losses of 11% in the turnover of Spanish companies, reaching nearly 50% among a group of very small companies.

The majority of the respondents from the textiles and clothing sector said that the overall quantifiable effects on their industry were significant. For example, it is estimated that in Italy this illegal practice causes damage to the economy worth approximately €5bn to €7bn a year, 60% of which is caused in the textile and clothing sector. In Germany losses are likely to exceed 10% of company turnover. Estimates for damage by counterfeits to the textile and clothing sector may differ but it is clear that the costs of developing a large number of designs each year are very high, with considerable losses for innovation fashion companies.

Health and safety

The two sectors that appear to be mostly concerned about health and safety issues were toys and mechanical engineering with concerns stated by respectively 44% and 25% of their member companies. The least concerned sector was textiles and clothing industry, with 36% of participants claiming that the counterfeiting of their products did not pose risks to consumers.



Qualitative effects of infringement

The common view about the qualitative effects of counterfeiting revealed by the surveys was that it clearly reduces incentives to innovate and invest in R&D, a view strongly expressed by those from the mechanical engineering sector. The following major impacts were mentioned:

Inequalities between legitimate companies and counterfeiters

It is obvious that a company which invests in R&D will be less competitive than a company producing fake products without having to incur such costs. Counterfeit products are cheaper, which depresses the prices of all products, so the legitimate company makes less money and consequently has to decrease its investment in R&D.

Counterfeiting may also impact on the image of the company and may even give rise to questions of product liability in the case of dangerous products that cause damage

(some companies have been required to prove before a court that a product that caused damage was, in fact, a fake and not one of their brands).

There are also significant costs implications when companies decide to devote additional manpower and resources to the prevention and pursuit of counterfeiters.

Toys sector companies mentioned that the negative economic impacts of counterfeiting discourage manufacturers from investing in R&D and innovation. A further negative impact is on the image of the legitimate company producing genuine products.

Effects felt by the textiles and clothing sector include: consumers buying a fake product in good faith, perhaps for the same price as the original, will lose confidence in the quality of the product; and many companies are simply afraid to conduct normal business activities, such as exhibiting at trade fairs, exporting and manufacturing in countries known for their numerous counterfeiting cases, such as China.

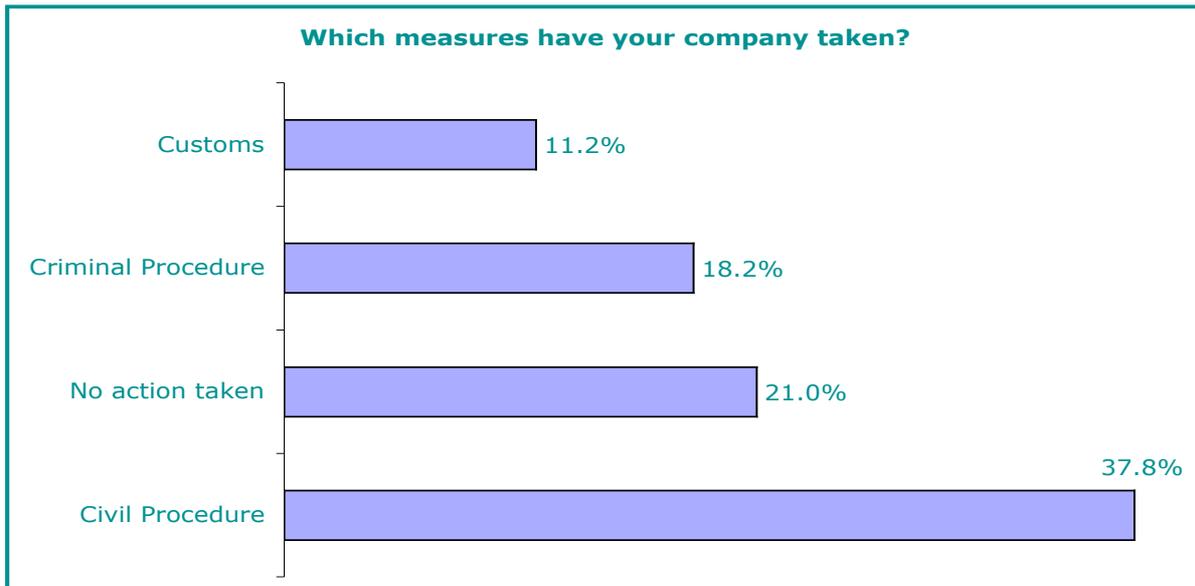
Investment and manufacturing decisions

According to the survey results, about quarter of respondents said counterfeiting and other IPR abuses influenced their decisions to invest in R&D and production in countries where IPR abuse originates. It is interesting to note that approximately a third of respondents from the mechanical engineering, automotive parts, toys and 'other' sectors reported that IPR problems have adversely affected their decisions to invest in R&D in such countries, while only about 16% of those from the textiles and clothing industry were similarly affected.

Concerning the production in countries where IPR abuse originates, 33% of respondents from the automotive parts sector and 'other' sectors said their decision would be affected. Figures for companies in the remaining sectors were: mechanical engineering 23%, textiles and clothing 22% and toys 11%. An inference of these findings is that there is a great determination among European SMEs to start business activities in developing countries, despite the well-known IPR problems.

Taking action against infringers

Most survey participants said that they favoured civil court and customs actions when forced to sue infringers — but a high number said that they took no action at all. Of this latter category 20% were from the textiles and clothing sector, followed by toys (22%), mechanical engineering (30%) and automotive parts (33%), suggesting that the textiles and clothing sector tends to be most active in bringing actions. Civil procedures were favoured by toys sector companies (44%) and customs procedures was mainly used by automotive parts sector (16.2%). The textiles and clothing sector had the largest number of companies able to resort to criminal actions (22%).



* Multiple answers were possible.

Opinions as to the efficacy of civil court actions showed that 13% of respondents felt these to be most or very important, while only 7% said the same about customs and 6% about criminal procedures.

In China the highest proportion of respondents used civil procedure (13%), then customs (8%) and criminal procedure (6%). Civil procedures were used most frequently toys sector companies (22%), followed by 'other' sector (19%), mechanical engineering (18%) and textiles and clothing (7%).

Registering IP rights

The SMEs Survey asked 143 companies about types of IPR registered in their respective countries. The survey showed that more than half of respondents (55%) have registered their trade marks. But about 60% have not registered their patents and about 70% have not registered their designs.

Sectoral analysis revealed that 60% of respondents from 'other' sectors (mostly represented by mechanical engineering companies) had achieved patent registration. More than half of companies from the toy sector, half from the mechanical engineering, one-third from auto parts and only one-fifth from textiles had such type of registration.

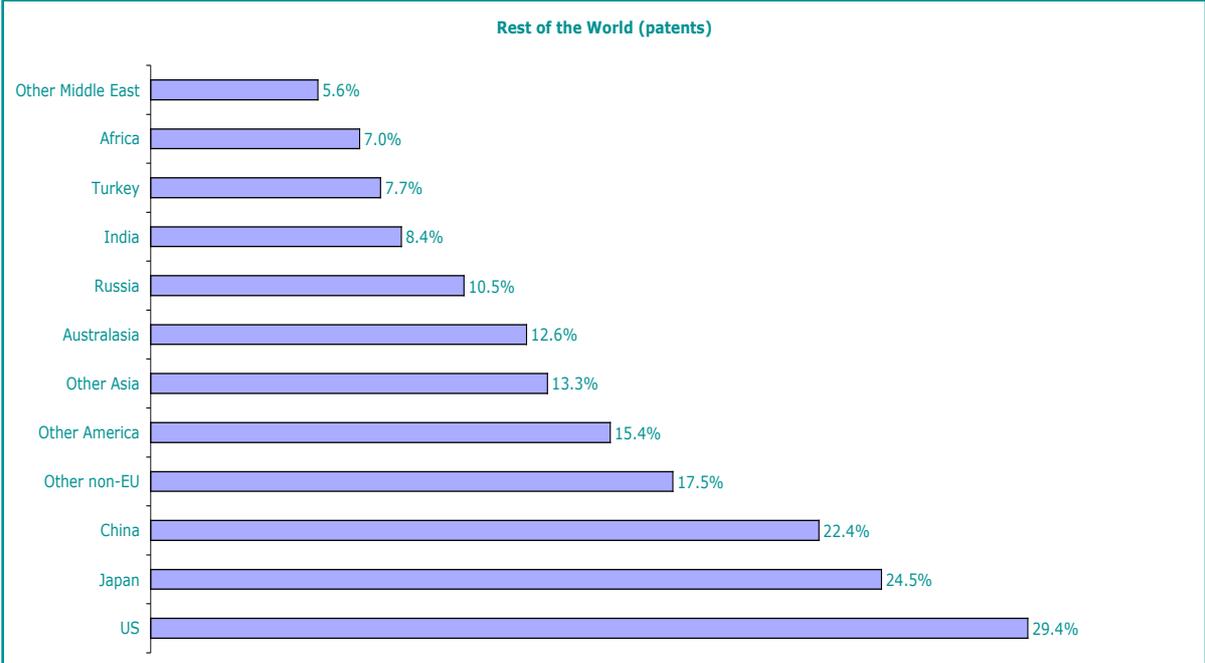
90% of companies from the toy sector had trade mark registration. Three-quarters from the 'other sector', about half of the respondents from the auto parts, mechanical engineering and textiles had such registration.

67% of companies from the toy sector had registered their designs. Almost two-fifths of companies from 'other' sector, one in three from the textile sector, and one in five from mechanical engineering (less than this from the auto parts sector) had such registration.

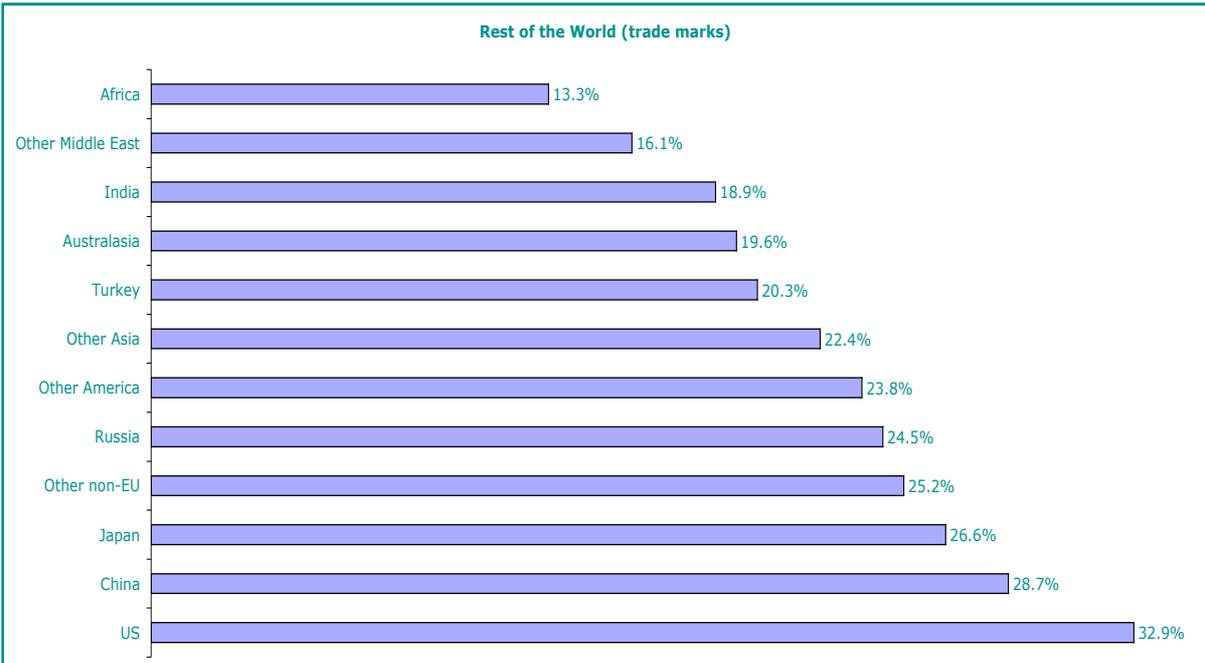
From international perspective, most of the survey respondents filed their patents for the US, Japan and then China (22%). Most of those registering patents came from the

mechanical engineering sector (above 50%), followed by the toys and the textiles and clothing sectors, respectively 44% and 4%. Trade marks registrations were mainly in respect of the US, China and Japan, only 29% of respondents stating that they registered trade marks for China.

The majority of companies registering their IP rights were from the toys sector 67%, followed by 'other' sectors (35%), automotive parts 33%, mechanical engineering 30% and textiles and clothing 18%. It is striking that the registration of designs and utility models and the use of confidentiality agreements in China is very low, at respectively 10%, 8% and 3%.



* Multiple answers were possible.

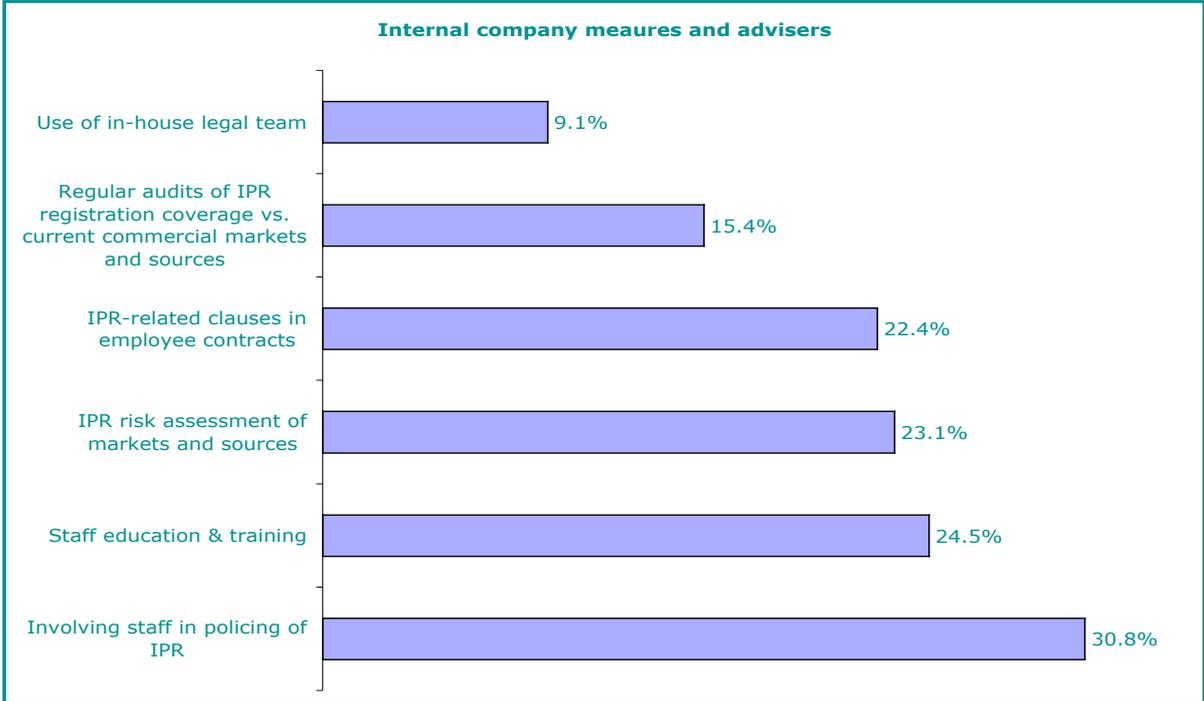


* Multiple answers were possible.

Self-help measures and external assistance

With regard to internal company measures, a large number of respondents (31%) said that they would involve staff in policing IPR, compared with only 9% who would (or could) use in-house legal teams. However companies using external contacts and advisers stated they would be likely to retain a lawyer or patent attorney. 22% of respondents said that would involve a chamber of commerce, trade association, sectoral organisation or similar but just 8% would seek help from government trade organisations, in-country diplomatic posts and national commercial representatives.

The mechanical sector appears most likely to use external lawyers (48% of sector respondents), followed by textiles and clothing (40%), toys (22%) and ‘other’ sectors (14%).



* Multiple answers were possible.

Sectoral organisations’ attitudes to IPR abuse

Mechanical engineering

The views of the sectoral/business association representatives of the mechanical engineering sector about SME attitudes to IPR abuse were divided. Some respondents stated that SMEs develop a very strong IPR strategy at different levels, protecting their IP, introducing appropriate clauses in their contracts and trying to improve market surveillance. They said that even some small companies had genuine strategy for IPR protection, registering their IP rights and being prepared to go to court or settle through mediation or arbitration.

However most sectoral respondents acknowledged SMEs tend not to act against counterfeiters. Some of the companies that have tried to fight against counterfeiting in China in the past have found themselves confronted by so many obstacles that they gave up. The view of this body of opinion was that few SMEs register their

rights because even if they do so the various barriers to taking action — in terms of costs, man hours and general uncertainty — are too high.

The finding that few SMEs have a strong IPR strategy is confirmed by other studies. In 2005 VDMA asked 46 medium-sized and larger member companies with remarkable significant R&D activities about their patent strategy. Their survey revealed that only 28.5% of these companies had a patent strategy and 18.2% had no strategy at all; while in 53.4% of cases the 'strategy' amounted only to the registration of IPR.

Toys

Most toys sector representatives agreed that SMEs lack adequate resources to protect their IPR effectively so they often ignore the problem of counterfeiting. The strategy of the typical toys sector SME would be first to register its trade mark and benefit from the automatic protection of the unregistered community design. In some cases, they may register designs.

But even if they uncover counterfeiters they face lengthy and costly legal procedures. The feeling is that it is impossible to proceed against a counterfeiter located in China or to start actions against the so-called 'look alike and parasitic copies' (which may not, in fact, constitute infringement). Thus SMEs in this sector tend to protect their rights but, for the reasons mentioned, find it impracticable to enforce them. An alternative strategy is to try to keep ahead of the counterfeiters by constantly introducing new products.

Textiles and clothing

Most SMEs from this sector find the costs of IP protection especially designs too high. Some are able to retain intellectual property lawyers to defend their interests in court and others employ in-house IPR specialists. Large companies generally have abundant experience of the problem of counterfeiting, so they are aware of the importance of registering their IP rights. They may also have invested in in-house professionals to monitor infringements.

SMEs, on the other hand, tend to be less aware of the risks of counterfeiting and to see the prevention of IPR violations more as a cost than an investment. The costs of registration are felt to be objectively very high and in this sector it is hard to predict whether a particular product or a trade mark will be a success. When it is successful it is often too late to register it, so the counterfeiter already has the advantage. Many SMEs appreciate the damage caused by the violation of their IPR only when they have become directly involved in a case — and by then it is usually too late for anything but a defensive posture.

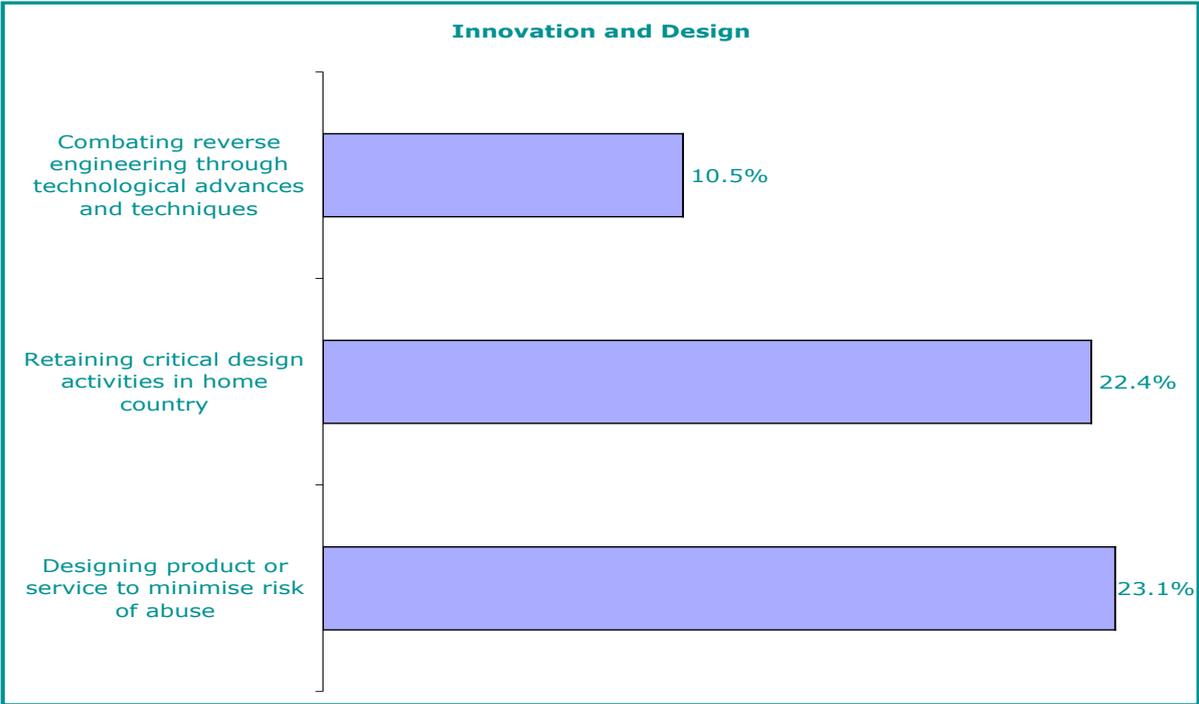
Automotive parts sector

Representatives from this sector confirmed that bigger companies are able to establish strict enforcement strategies against counterfeiters, as well as start legal actions, take precautionary measures and invoke proceedings against the illegitimate use of their trade marks.

Measures adopted by SMEs

They recognise that strategies employed by SMEs are not as sophisticated as they could be. By way of illustration, most survey respondents said they would merely check for the presence of the counterfeiters and introduce IPR protection clauses into commercial contracts. A relatively small number of participants would trial risky markets with old technologies or perform due diligence checks on contractors or partners. Yet the figures of those adopting good practices are only modest: 30% of those from the mechanical engineering sector said they used IPR protection clauses in contracts (compared with textiles and clothing (29%), 'other' sectors (27%), toys (22%) and automotive parts (17%); and fewer than one in ten companies perform due diligence checks on those with whom they are involved commercially.

Turning to responses concerning companies' business strategies involving innovation and design, 23% of all survey participants stated that they designed products or services specifically to minimise the risk of abuse, while 22% retain critical design activities in their home country. This latter point appears more or less consistent across the sectors.



* Multiple answers were possible.

Asked about IPR protection measures in the fields of production and distribution, companies mainly resort to direct contact and visits to their production sources and distributors and claim they have tight control over drawings, tooling and other key elements of production. Far fewer mentioned that they had adopted strategies such as incorporating tracers or fingerprinting into product or packaging design.

Appendix B: Findings from Other Studies

This appendix reports the findings for the sectors on which the study is focused, based on information from other EU, OECD and sector association studies.

1. Quantifying infringement levels

In the automotive sector ten cases of seizure of counterfeit parts were reported in 2005, involving an estimated total of 45,000 parts. These originated in Asia and were destined for the French and African markets, with a value of some €15m.

In 2006, customs seized more than 250 million articles, and the number of custom cases involving fakes increased to 36,486 cases. Compared to last year's figures, where customs seized 75 million articles involving 26,000 cases, this represents an enormous increase of the goods seized, as well as the customs activities in this area. Of these, more than 30 million were textile goods, up from 11 million in 2005 and 4.7 million in 2001. It is also important to note that more than 60% of cases in 2006 were initiated by the textile and clothing sector (Taxud, 2007).

Within the mechanical engineering sector, a 2006 survey into capital goods counterfeiting conducted by the German Engineering Federation VDMA found that two-thirds of companies said they had been affected by counterfeiting, compared with a handful of positive responses in 2003.

Latest statistics from the **toy sector** show that the number of counterfeit toys seized at the EU's borders increased from about 1.9 million in 2005, to over 2 million articles in 2006. As in previous years, representatives of this sector stressed that the level of seizures was only a small fraction of the overall counterfeit problem.

2. IPR problems outside the EU

Many counterfeits in the automotive parts sector are shipped from their countries of origin without specific packaging or trade marks, described simply as 'generic' goods to avoid trade mark infringements. However infringing markings and packaging are added before entering the market. Evidence suggests that trade marks are the most common form of IPR abused, with patents and copyright also infringed (OECD, 2006b).

Companies in the textile and clothing sector face the particular problem of proof of novelty, absolute novelty being a requirement in China. Companies report that the time taken for registering designs in China is excessive, especially in view of the life of most textile and clothing products (6-8 months). The malicious filing of trade marks before foreign competitors file them in China is a further problem, leading to original merchandise being stopped by customs and prevented from entering the country. In some cases local counterfeiters may even sue for patent infringement by the original rights holder. Time-consuming legal appeals are used to stretch out the process when foreign companies act against counterfeiters (Euratex, 2006a).

The mechanical engineering sector reports that in China its members confront two specific problems:

- a. The China Compulsory Certification (CCC) scheme. Companies are often surprised and concerned by the level of technical information requested in application documents and questionnaires, which are far more detailed than for similar procedures required by the EU or the US. A possible solution would be to obtain the accreditation of European testing laboratories by the Chinese authorities (Orgalime, 2006a).
- b. The promotion and dissemination of counterfeit products at trade fairs.

In general, the following issues were identified as the main challenges: first, it is hard — especially in China — to combat the infringement of patents. The rights holder may find it impossible to take action against a Chinese company infringing its design if the product is merely displayed or offered for sale. The IPR authorities tend to act against infringers only in response to a proven case of the sale or manufacture of an infringing product.

Finally, companies may be reluctant to admit publicly that they have an IPR problem or are taking action in third countries, fearing they could lose business opportunities or provoke difficulties with local authorities. In such cases action by an industry association can be helpful as it allows companies to hide their identity.

3. IPR problems within the EU

The continuing debate in the European automotive parts sector is whether to give the rights to vehicle makers to invoke IPR design rights. This would reinforce a monopoly over the supply of visible parts such as bumpers, bonnets, lamps and windscreens, allowing the manufacturers to gain complete control over a market worth €10bn. Despite the efforts to establish competition in visible spare parts market, there is a patchwork of conflicting national rules. The European Commission has recognised the problem and submitted a proposal to adopt a Repairs Clause to amend Design Directive 98/71/EC (ECAR, 2007).

In the Explanatory Memorandum to the recently adopted Directive on the Enforcement of Intellectual Property Rights the European Commission stated:

'In sectors in which competition is particularly fierce, such as the market for spare car parts, the fight against counterfeiting and piracy must not be used to try to keep unwelcome competitors out of the market or to hamper legitimate competition. Such action would risk not only causing serious damage to the business concerned, but also – and above all – doing a disservice to the objective pursued' (European Commission, 2004).

The advocates of the revised Repairs Clause argue that with the new clause Europe's independent spare parts producers could: supply spare parts for Japanese, Korean, US and other car imported into the EU and thus generate additional EU jobs; compete with the spare parts imports of EU vehicle makers and thus cushion the blow of automotive off-shoring, or even bring jobs back into the EU; and manufacture spare parts in the EU for export markets thus, again, generating new EU jobs (ECAR, 2007).

There is the threat of other forms of IPR abuse in the automotive parts sector. Relations between large car manufacturers and their suppliers may be upset by the so-called 'blueprint' problem. There is evidence in the past of a large manufacturer commissioning the design of a new product from its supplier, but requesting quotations from a Chinese producer after delivery of the blueprint (Frankfurter Allgemeine Zeitung, 09.06.94).

In the textile and clothing sector, a key issue is that textile creations are part of vast seasonal collections so designers do not file all their applications in all EU Member States, preferring to take the risk of failing to register their designs. In the case of disputes, the major concern is to provide evidence of the date of creation. Each Member State regulates its copyright autonomously so infringement proceedings must be based on the specific legislation of the respective Member State (Euralex, 2006b).

In the mechanical engineering sector there is a feeling that in China there is still a large gap between, on the one hand, the 'theory' of IPR legislation and, on the other, and its proper enforcement. In particular the relatively low level of penalties — insufficient to deter IPR violations — remains a significant problem (Orgalime, 2006).

It is reported that parasitic copies in the toys sector, often referred to as look-alike products, represent a growing problem in Europe. The counterfeiters have intentionally been developing products that come close to the original in appearance but do not necessarily infringe any intellectual property rights. Parasitic copies seek to mislead the consumer into buying a high-quality original by borrowing and combining certain distinctive features of the original product by creating a confusingly similar appearances (Toy Industries of Europe, 2006).

Representatives of this sector maintain that although the newly-adopted Enforcement Directive makes reference to the problem, previous drafts of the adopted text had gone further in calling on the Commission to address the issue of parasitic copying and to assess whether measures should be taken to counter the problem (Toy Industries of Europe, 2006).

4. Impacts of infringement

Information collected from the automotive parts sector suggests that the key effects of counterfeiting include the following:

- a. Manufacturers of original products lose profits at the expense of companies involved in counterfeiting activities.
- b. A company's reputation sustains significant damage to its brand, to an extent which is impossible to measure.
- c. Customers who have acquired a counterfeit in the expectation of buying an original product may still be able to challenge the company producing the original item (especially where the burden of proof lies with the manufacturer, as in China).
- d. Counterfeiting tends to have a negative impact on innovation activities since manufacturers are cautious about investing in R&D, being concerned that

counterfeiting will not allow the manufacturer of the original products to capitalise on its original investment.

In the case of the textile and clothing sector, designs to a significant extent determine the commercial success or failure of a product. It is estimated that creation and innovation investment in these designs accounts for 10% of the costs of a business. The burden for small enterprises is already huge (10% of the turnover is devoted strictly speaking to design and to the promotion of the trade mark) and costs associated with implementing anti-counterfeiting polices represent a further 2% of the turnover (Euratex, 2006b).

According to results of a survey on counterfeiting conducted by the German Engineering Federation covering the mechanical engineering sector, losses in turnover can be significant: 30% of affected companies reported losses in turnover of 5% and more (3% in 2003). However the survey concluded that it is difficult to calculate the damages for the sector due to counterfeiting (VDMA, 2006).

The toys sector points out that IPR abuses have various repercussions, not just economic but also in terms of consumer protection, public health and safety. Counterfeit toys do not necessarily comply with the most basic safety standards developed to protect children and illegal products may contain small parts, toxic substances and hazardous materials.

Companies in this sector are committed to developing toys which have an even greater educational value for children. The argument is that the negative impact of counterfeiting and copying discourages manufacturers from investing in the innovation which is essential to this objective (Toy Industries of Europe, 2006).

5. Enforcement problems

The view of EU customs authorities in the automotive parts sector is that they are not tough enough — although, as has been seen, European manufacturers are not significantly affected by counterfeits in Europe. The number of requests for action lodged with customs by car parts manufacturers is limited: most counterfeit spare parts are to be found in other markets including Africa, South-East Asia, the Middle East and Eastern Europe.

The textile and clothing sector comments that the directive on the enforcement of intellectual property rights (Directive 2004/48/CE, Official Journal n°L157 of 2004) does not contain criminal sanctions. However Member States are free to implement measures that go beyond the provisions of the directive as well as criminal sanctions if they choose to do so (Euratex, 2006b).

There should be specific training for national judges, who frequently order counterfeiters to pay symbolic sums through the absence of a real political will or because there is lack of knowledge and experience in dealing with IPR issues in this sector (Euratex, 2006b).

A number of financial barriers in the process of applying for customs action in the EU deter textiles and clothing companies — and SMEs in particular — from taking appropriate measures.

These include the following costs:

- a. Translating the application forms into all the EU customs languages.
- b. The obligation, in practical terms, to maintain a company representative in every EU Member State; this is necessary if a company wishes to pursue cases and lodge appropriate complaints.
- c. The expenses of the storage and destruction of infringing goods.
- d. In addition are the costs of the judicial procedure, which often cannot be charged to an infringer within EU territory (for example, in respect of goods in transit or transshipment).

The textile and clothing sector applauds the procedure provided in article 11 of the EC Regulation 1383/2003. This ended the need for the IP rights owner to take action based on the merits of the case before being able to have the goods destroyed with the agreement of the holder of the goods or the person who declared the goods to customs. However sector representatives note with regret that this provision is only an option for Members States, which can decide individually whether or not to include it in national legislation.

In the view of the mechanical engineering sector, penalties in China for displaying counterfeits are not sufficiently high to deter offenders. It is common practice for companies banned from a trade fair following repeated offences to return within a short period bearing another company name (Orgalime, 2006a).

In the toys sector there is a belief that at least a minimum level of harmonisation in criminal law is necessary in order to combat the problem of counterfeiting. Any strategy failing to apply strong criminal sanctions cannot succeed in discouraging counterfeiters. There is also much interest by the various associations within this sector in providing more assistance and making their know-how available to national enforcement authorities and customs officials (Toy Industries of Europe, 2006).

Appendix C: Interview Report – China Practitioners

Introduction

These interviews, most of which were conducted between March and May 2007, were based on a list of questions, some of them moderately technical from an IPR perspective. The interviewees are professionals based in China whose everyday work brings them into contact with local authorities and lawyers as well as foreign companies seeking assistance.

In addition to recording answers to the questionnaire, the interviewees' general observations were captured as it was felt that this material would be even more valuable than the set-piece responses: some of the interviews took an hour or more. These views are included in this appendix and have been used throughout the study report.

Responses

1. How would you characterise the abuse of intellectual property in China in the way it affects foreign SME exporters and investors – in recent years has it been:
 - a. a major or minor problem?
 - b. getting better, getting worse or not changing?
 - c. worse for smaller companies than larger ones, or the same?
 - d. exhibiting significant differences depending on where companies are operating in China?

Most respondents said that IPR abuse in China is a major problem, especially for investors but some felt that it is more minor than it appears because it receives a disproportionate amount of attention. One person mentioned the self-induced nature of the trouble companies inflict on themselves through being inadequately prepared. The interviewees said that on the whole the difficulties are diminishing, albeit not as fast as most people would wish.

Opinion about whether IPR abuse is more acute for small or large companies was mixed: some thought larger companies, with their high profile, attractive brands and higher proportion of consumer rather than professional products, tend to fare worse, while others pointed to the difficulties small companies have because of their deficient protection and their comparative lack of resources, which deters them from going to court. SMEs' inability to obtain information about the counterfeiting of their products in China was also mentioned in this context.

One respondent pointed to the contradiction for companies with prominent identities and branding in the fashion and consumer sector: many hugely popular brands belong to companies whose sales are modest — and which therefore experience severe limitations because of their inability to hire powerful law firms when it comes to fighting frequent infringement cases.

Again, there was no uniformity when it came to the influence of location within China. Some respondents made the point that practice amongst the Chinese authorities is more enlightened in areas where there is significant foreign direct investment, whereas the less economically developed inland areas of China are also

less advanced in their approach to the protection of intellectual property. Some respondents reported wide variations in terms of geography, with some areas adopting strict enforcement and others failing to provide adequate protection.

2. How are the central Chinese authorities dealing with the problem – are they:
 - a. taking it seriously?
 - b. dealing with it effectively?
 - c. enacting measures on which foreign SMEs can depend?
 - d. doing as little as possible but trying to appear as if taking action?

In general, the interviewees felt that the central authorities are taking matters seriously (although 'more could be done' and 'implementation and enforcement tend to be slow' were common themes). In part, the more serious official attitude results from the large number of indigenous businesses that are now experiencing the abuse of their IP. The proportion of cases where both the plaintiff and the defendant are Chinese is now thought to be more than 90%. One person considered that officials are becoming more responsive to the needs of Chinese firms than to those of foreign investors, while another said the high number of purely Chinese cases is the most important pressure point for speeding the pace of enhanced IPR protection in China.

Attitudes were less positive when it came to the authorities' effectiveness. Most people said improvements had been slow and a lot more needed to be done; again, practice in the larger cities that are more exposed to foreign investment tend to be more advanced. Recent actions by the Guangzhou authorities, especially at the trade fairs and with SMEs in mind, were singled out for favourable mention.

Almost all respondents thought SMEs could depend on the central authorities' measures, aided by the large number of new enforcement centres, many of which have English speaking staff. One described the way the authorities go about the task as sometimes being 'too theatrical', although for others this was an outdated — or even unfair — criticism. In general the respondents were positive about recent improvements they had seen.

3. How are the provincial or local Chinese authorities dealing with the problem – are they:
 - a. taking it seriously?
 - b. dealing with it effectively?
 - c. enacting measures on which foreign SMEs can depend?
 - d. doing as little as possible but trying to appear as if taking action?

The responses to the same series of questions as in 2, but in respect of local, rather than central, Chinese authorities were very different. A common reaction to parts a. to c. of the question was 'less so than at the centre'. Nonetheless interviewees reported themselves as reasonably content that the authorities are trying to take matters seriously, once again making a distinction between officials in the coastal provinces and those elsewhere; also from one province and another, irrespective of location. One interviewee felt that SMEs risk being taken less seriously at provincial level.

All had reservations about effectiveness and most were uncertain about the degree to which SMEs can rely on the efforts of local organisations. Here again, some felt that there was a ‘political’ need to appear to be taking action even if the reality is different. Pressure on the provinces by central government was also felt to be a factor.

4. How do you see matters changing in the next few years – will they:
 - a. get worse?
 - b. improve?
 - c. remain the same?
 - d. impossible to say?

All respondents were optimistic on this point, saying that matters will improve — even if only ‘somewhat’ and at a slow pace. The rising expectations of Chinese companies and their customers were felt by some people to be a critical factor in this process, rather than the difficulties experienced by foreign exporters.

One person defined the changing nature of the problem in cultural and economic terms: in the consumer goods and fashion sectors people become richer and more cosmopolitan as the economy develops, so they value genuine items and see the ownership of fakes almost as a loss of face. In the medical and pharmaceutical sectors consumers becoming more aware of the dangers, while for industrial products companies are now more alert to questions concerning legal liability in home and overseas markets.

5. Which are the most effective authorities in the drive to improve China’s adherence to international IPR protection norms:
 - a. the AIC/TSBs?
 - b. other IPR authorities, eg Patent Office, Copyright office?
 - c. the courts?
 - d. Customs?
 - e. national initiatives?
 - f. local county- or city-level initiatives?

There was considerable unanimity in the answers to the questions in this section. The respondents felt that the use of enforcement by administrative action is now less effective than other recourses, especially where there are disputes involving patents — as opposed to more open-and-shut cases such as seizures of counterfeit goods — as the AICs can have only a limited impact. The sheer complexity of cases nowadays was also cited as a reason for wishing to avoid the administrative action route, especially as the decisions of the AICs may be overruled by the courts. However a couple of people had found the AICs to be effective nonetheless. Some spoke of competition, in some areas, between the courts and the AICs to be seen as the more efficient entity in handling counterfeiting cases.

In contrast use of the courts (and to a lesser extent the specific IPR authorities) was deemed a better option. Especially in larger cities, the quality of the judiciary and the efforts being put into setting up IP tribunals were given as reasons for this choice. One person noted: ‘good cases can generally win in the courts’.

Four respondents felt Chinese Customs to be a well-regarded authority because of its ability (and willingness) to monitor goods on export and the increasing number of

seizures of infringing shipments it makes. Some interviewees singled out Customs as the single most effective authority.

National initiatives were mentioned by some of the people interviewed but there were doubts about their actual effectiveness, while initiatives at local level were not highly regarded except in some big cities. Several thought the important point was to understand better the competences and limitations of the various authorities and to invoke their procedures accordingly.

6. Are you aware of Chinese government campaigns to improve education on IPR issues?
 - a. yes/no
 - b. if yes, are they effective?
 - c. which do you think is the best?

Most respondents were aware of government campaigns although only a few were mentioned by name. Their effectiveness was doubted by most of the people interviewed and they appear to be regarded as 'sporadic'.

7. Which recent campaigns are you aware of initiated by:
 - a. Chinese central authorities?
 - b. Chinese local authorities?
 - c. other national organisations in China?
 - d. other national organisations in their home countries?
 - e. the EU?

Various initiatives were mentioned, including those by SIPO and the government's 'IP Awareness Week', although this was criticised as being aimed at specialists rather than the public. However the public, rather than business-focused, advertising campaigns in city subways were also noted.

Overall, central government was said to be the main initiator of campaigns, while local governments tend to implement them. However there are some notable local initiatives which were felt to be effective, mainly in large cities such as Shanghai and Guangzhou. These include actions aimed at clearing local markets of counterfeit goods.

Activities in China by foreign organisations cited by interviewees included those by industry groups, national commercial offices and WIPO. The VDMA's actions against counterfeiters at Chinese exhibitions was mentioned; so, too, were the Italian awareness and consumer education initiatives and the creation of specialist IPR desks to assist SMEs operating in China.

Home-country initiatives admired by the respondents included those in Germany (referred to several times), Finland, France, Italy, Netherlands, UK and certain Eastern European countries. The efforts of the EU, especially through the European Chamber of Commerce in Beijing and the European Patent Office, were mentioned by all. Several countries including Italy, Germany and France are increasingly strict on obtaining from exhibitors at European trade fairs written guarantees about the absence of infringing products on their stands. The high-profile advertising campaign (Contrefaçon Non Merci) in France was an example mentioned by some.

8. Does your own organisation:
- a. receive requests from foreign SMEs for assistance over IPR protection?
 - b. monitor China's actions/performance?
 - c. publish information for companies?
 - d. organise IPR-related events such as workshops or seminars?

The activities of the interviewees' own organisations showed little variation: all receive requests for help and most organise IPR-related events, monitor the situation in China and publish information for companies. Mention was made of the transparency of published information about infringement cases, for example through frequent reports in the China Daily.

9. What is your opinion about the attitudes of SMEs towards IPR abuse?

This question invited a freeform response. Answers included the following points:

Most SMEs are concerned about the problem, some sectors more so than others, but a minority just hope it can be avoided.

Sometimes SMEs overreact because they are more frightened than they should be. This can lead to them avoiding the opportunities of the China market unnecessarily.

There is a reluctance to enforce their rights owing to limited resources; also because it is hard to find good lawyers who understand China.

SMEs tend to be more realistic and do not expect perfection. At their level there is a closer relationship with the customers, which tend to be businesses rather than consumers. Business buyers are more sophisticated in the way they purchase and more discerning where the possibility of counterfeits is concerned.

A few years ago many SMEs were deterred from coming to China but the improving situation means that this is now becoming less likely.

Some think that taking the correct measures is irrelevant or useless. SMEs they should make better use of properly-drafted licensing arrangements to protect themselves in distribution arrangements.

Cost is the greatest difficulty for SMEs, in terms of both money and time.

Many of our smaller companies are ignorant about the need for protection and they lack sufficient resources if a problem occurs.

Some SMEs are active, well prepared and ready to fight cases when necessary; others are more apathetic — especially those with long-term relationships in China — and have given up the fight because they regard it as a waste of time.

SMEs arriving in China tend to be less aware of the issues than they should be and ignorant of the actions they should take; many are too trusting and need to be more alert for infringements.

SMEs lack knowledge on these issues; they are not sufficiently informed or prepared to tackle them, so when problems occur they think that doing so will be either too

difficult or expensive — or both. Some prefer to close their eyes to counterfeits or even settle with the counterfeiter using licence agreements or other commercial arrangements.

Problems encountered need to be demystified.

10. Which sectors, in order of severity, are most affected by IPR abuse in China (in terms of problems encountered or lost sales):

The respondents' orders of severity were as follows, each mentioned once at each level unless indicated in brackets. (Note: the term 'sector' was used loosely):

1st: ICT, pharmaceuticals, consumer goods, luxury brands, media/entertainment, technology, textiles, design, furniture, publishing and construction, fashion

2nd: auto parts (2), ICT (2), luxury brands (2), pharmaceuticals, machine tools, stationery, food industry, industrial products (construction)

3rd: chemicals (especially agricultural and biotech), machinery in general (4), engineering designs, media/entertainment, consumer goods

4th: textiles, luxury goods, spirits, toys, cigarettes, media/entertainment, service sector, ICT, electronics, machinery

One respondent observed that general know-how enjoys little protection in China and is very widely abused through leaks by employees.

11. Which measures do you find to be most effective for companies that encounter instances of IP abuse:

- a. civil litigation?
- b. administrative enforcement via the AICs or other administrative authorities?
- c. actions involving Customs?
- d. criminal prosecution?
- e. mediation

As might be predicted from the responses to Question 5, a majority felt civil litigation to be the most effective measure, with good decisions handed down, although some qualified this by saying that much would depend on the type of case in comparing litigation with administrative action (again, for reasons given in the analysis of Question 5).

One organisation has had generally good experiences of working with the AICs in conjunction with CCPIT whereas, another respondent pointed out, civil litigation may not be an option for SMEs because of the cost and formalities surrounding the collection of evidence for court cases.

Several interviewees also referred to the effectiveness of Customs and, in cases where defined value limits have been exceeded, action in the criminal courts was felt by some to be potentially the most effective route.

Many also approved of mediation and one respondent pointed out that mediation leading to settlement was very prevalent behind the scenes but, by its nature,

received much less publicity than other types of action. Some felt this to be an increasing trend.

12. Which forms of preventative measure, in order of their effectiveness, do you consider to be most useful:

Taking as a 'given' the need to set out by registering one's IPR — mentioned by almost all respondents (if not always as obvious to SMEs entering the China market) — answers included the following points:

Adopt a 'hybrid protection approach': internally, educate employees while externally, draw attention to one's IP rights in the market.

Educate your staff and ensure your company prepares before coming to China.

Make early and effective contact with the relevant authorities in China.

Take preventive action in good time.

Conduct due diligence or corporate search programmes; check your IP portfolio; verify with the Chinese authorities that the company you want to work with is not a known counterfeiter of other brands.

Be careful how you choose your partners, distributors and customers.

Withhold documentation from the factory where possible.

Be circumspect in the way you distribute catalogues and other information about your products, especially at trade fairs and exhibitions.

Concentrate on brand-building and innovation, changing packaging and product design regularly and unannounced.

Don't just sell a product — sell a service. If you offer, for example, after-sales support, some kind of service that involves the use of the product or even just a warranty, this will differentiate you from what most counterfeiters can offer. It will mean that the customer prefers your product and is more loyal.

Monitor the market and act at once if you encounter infringement.

Do not shy away from civil litigation where necessary.

Spread your manufacture amongst several sources if possible.

Make sure you control physical aspects such as documentation and tooling.

It is unwise to give an agent the complete responsibility for the selling process; retain a part of it, such as after-sales support.

Early use of mediation with the abuser can avoid the need for more complex action.

Avoiding hiring corrupt staff.

Make effective commercial and employee contracts.

13. Which types of IP are most often abused in China (rank in order) when foreign SMEs encounter problems:

In order of frequency of abuse, the interviewees cited:

- 1= trade names and confidential information
- 2 design rights
- 3 trade marks
- 4 copyrights
- 5 patents or utility models

14. Indicate the extent to which you agree with the following statements about the IPR protection environment for SMEs operating in China:

In each case the respondents were asked whether they strongly agreed, agreed, disagreed or strongly disagreed. The average for the replies is shown after each proposition.

‘You are unlikely to encounter an IPR problem in China’: disagree

‘Some companies are very vulnerable and so should not go to China’: agree

‘Few companies can regard themselves as safe in China’: agree

‘The authorities are helpful and effective when problems occur’: disagree

15. Which new measures would be most effective in helping companies to avoid IPR problems in China?

Answers included the following points:

Companies need to:

- have more information about which authorities they should contact if there is a problem;
- have better agreements covering their IPR for manufacturing or licensing operations;
- realise that internal compliance measures are important as in many cases infringements emanate from former associates or employees;
- receive more help in making better use of contracts;
- be more reluctant to disclose their latest technologies; in particular they should be more cautious at exhibitions;
- place more emphasis on civil litigation procedures and be well prepared before fighting cases;
- ensure they have up-to-date information about IPR enforcement and protection in China and keep it up-to-date as it always changing.

- budget to finance the international protection of their IP rights, whereas most SMEs are reluctant to invest in protection because they think that they will not be able to enforce their rights.

16. Which new measures would be most effective in helping companies to deal with IPR problems once they have occurred?

This question invited a freeform response. Answers included the following points:

The formality requirements relating to power of attorney for SMEs when fighting cases should be abolished.

Spurious financial charges when administrative action is taken should be abolished, such as extra fees for the involvement of officials and police for out-of-hours raids, and for the removal, storage and destruction of goods. At present such charges are borne by the injured party; instead there should be a more demonstrable service to rights holders rather than emphasising that 'they are getting it all for free'.

IPR authorities could help companies enforce judgements but enforcement mechanisms are inadequate — for example, ensuring that payments awarded are, in fact, made or infringing companies are shut down as has been decreed.

There is a need for better training of the judiciary and more professionalism amongst judges.

The complaint centres should be made more effective and able to guide companies through the bureaucracy.

More fairs should emulate the Canton Trade Fair in having a booth where companies can go to complain about infringements. (Note: this system is spreading to all Chinese fairs with a duration of more than three days).

The level of evidential requirements needs to be lowered.

'Road maps' setting out the complaints processes involved, together with legal advice, should be instituted.

The process of notarising evidence needs to be overhauled.

Clearer guidelines, perhaps produced with EU funding, such as information on which of the relevant authorities to deal with, would help. A path through the bureaucratic and legal obstacles.

An IPR hot-line, either EU-funded or set up by the Chinese authorities.

It would be a major step forward to have an anti-competition law as in Germany, where it acts as a catch-all in many IPR infringement cases. (Note: a recurring opinion, strongly held by some interviewees).

A representative organisation similar to the Quality Brands Protection Committee should be created specifically for SMEs, with the involvement Chinese organisations.

The following general points were captured during the interviews:

Hong Kong. The IPR climate is considerably better than in the mainland but Hong Kong is used as a springboard for IP infringement activities, including illegal company and trade mark registrations.

Certification procedures. CCC and the additional certification requirements in, for example, the mining sector act as a vicious circle because China gains access to design details which are passed on to its own design authorities; however if a company does not comply there will be no prospect of selling its products in China. Staying away is not an option for some sectors such as textile machinery as China represents one of the major opportunities worldwide.

Litigation vs administrative enforcement route. There should be an increasing use of the courts rather than AICs, though this tends to be a subjective matter and some companies would not agree. The courts are becoming more empowered and are the only feasible choice where there are disputes, such as in cases involving patents. The problem with AICs is that although they are especially attractive for SMEs they are open to bribery and it can be difficult to get them to act.

Notarising procedures. There are particular procedural problems for companies needing to make use in China of evidence obtained outside China. This must be notarised and then confirmed by the local Chinese consulate. While this is easy in some countries, for example the US, it can be difficult in others, such as France. But without completing such procedures the case cannot even be submitted in China.

Counterfeits: The Chinese are well aware of which consumer items are real and which are fakes and as they become more sophisticated they will prefer genuine goods. There are probably more foreigners buying Chinese-made counterfeits than Chinese people. Being in a world where China exists as a major source of counterfeits is more of a commercial risk than operating in China.

Choosing law firms. Foreign companies need good Chinese lawyers to assist them and SMEs may find this brings cost savings. Larger companies, too, should consider this option and avoid relying on their customary international law firms, which do not necessarily understand Chinese methods.

Because of weak enforcement some companies prefer to co-operate with their infringer rather than fight them, or else appoint the infringer as a distributor.

Appendix D: Existing Types of IPR Protection

A: TRADE MARKS

A trade mark http://en.wikipedia.org/wiki/Trademark_-_note-0#_note-0 is a distinctive sign used to identify products and/or services to consumers and to distinguish its owner and its products or services from those of others. It gives an exclusive right to the use of the sign in the territory where it is registered and/or used.

Conditions of Validity/Level of Protection conferred

What is a valid trade mark?

A trade mark may consist of any signs capable of being represented graphically, ie words (including first and last names), letters, numerals, colours or a combination of colours, the shape of goods or of their packaging, 3D signs, sounds.

A sign may not be registered if an absolute ground for refusal applies, namely if the sign:

- is devoid of any distinctive character;
- exclusively serves to designate the kind, quality, quantity, intended purpose, value, geographical origin or the time of production of the goods or of rendering of the service or other characteristics of the goods or service;
- has become customary in the current language or in the *bona fide* and established practices of trade;
- is contrary to public policy or to accepted moral principles;
- is of such a nature as to deceive the public, for instance as to the nature, quality or geographical origin of the goods or services.

For cases where the CTM lacks distinctive character, serves to designate the kind, quality, quantity etc., of the goods or services, or has become customary in the current language or in the practices of trade, the objection may be overcome if the trade mark has become distinctive in relation to the goods or services for which registration is requested in consequence of the use which has been made of it (ie the trade mark has acquired 'secondary meaning').

Use obligation

A trade mark has to be put to genuine use in the country where it is registered in connection with the goods or services in respect of which it is registered within a period of 5 years following registration.

Means of Protection

Except in countries where use of a sign confers protection (Common Law countries), registration is mandatory and can be applied for as follows:

The Community Trade mark

The Community Trade Mark system is the supranational trade mark system which applies in the European Union, whereby registration of a trade mark grants the trade mark owner an exclusive right throughout the EU as a whole.

The CTM system is therefore said to be unitary, in that a CTM registration applies indivisibly across all 27 European Union member states.

However, the CTM system did not replace the national trade mark registration systems; the CTM system and the national systems continue to operate in parallel.

Other supranational system

Worth noting is the system operating in Belgium, the Netherlands and Luxembourg, ie Benelux, where one filing of a trade mark application grants protection in all three countries.

The Madrid system for the international application of marks

Foremost amongst the systems which facilitate registration of trade marks in multiple jurisdictions is the 'Madrid system', which provides a centrally administered system of obtaining a bundle of single jurisdiction trade mark registrations based on an 'international registration'.

The Madrid system enables an applicant to file a single trade mark application in English, French or Spanish. The application, called an international application, can, at a later date, lead to the grant of a trade mark in any of the Madrid contracting states including the European Community as a whole (CTM registration).

B: PATENTS

A Patent is a temporary monopoly, granted to the proprietor of an invention in return for the disclosure of his invention to the public. When a Patent is granted, a full description of the invention is made available to the public but only the patentee has the sole right to make use of the invention or to authorise others to make use of it, for as long as he keeps the Patent in force (mainly for a maximum of 20 years from application).

Conditions of Validity/Level of Protection conferred

Requirements for patentability

The patent laws usually require that, in order for an invention to be patentable, it must

- be of patentable subject matter, ie a kind of subject-matter that is eligible for patent protection;
- be novel;
- involve an inventive step;
- be susceptible of industrial application.

Means of Protection

European Patent Convention

The Munich Convention (European Patent Convention, EPC) of 5 October 1973 is a multilateral treaty instituting the European Patent Organization and providing an autonomous legal system according to which European patents are granted.

Contrary to the Community Trade mark, the European patent is not a unitary right, but a group of essentially independent nationally-enforceable and nationally-revocable patents.

The EPC provides a legal framework for the granting of European patents via a single, harmonized procedure before the European Patent Office. A single patent application in one language may be filed at the European Patent Office or at a national patent office of a contracting State.

EPC Contracting States cover all 27 EU Member countries as well as several other non-EU countries.

International Application (under the Patent Cooperation Treaty)

The Patent Cooperation Treaty (PCT) of 1970 is operated by World Intellectual Property Organization (WIPO) and provides a centralized application system.

The PCT system enables an applicant to file a single patent application in a single language. The application, called an international application, can, at a later date, lead to the grant of a patent in any of the PCT contracting states.

C: DESIGNS

Design rights protect the visual appearance of objects that are not purely utilitarian. It consists of the creation of a shape, configuration or composition of pattern or colour, or a combination of pattern and colour in three dimensional form containing aesthetic value. An industrial design can be a two- or three-dimensional pattern used to produce a product, industrial commodity or handicraft. It gives its owner an exclusive right to use the design.

Conditions of Validity/Level of Protection conferred

Requirements for registrability

The design, to be registrable, must be new. This means that it has not previously been registered or published in any country prior to the date of application for registration.

The design should also have an individual character in order to qualify for protection and to distinguish it from any prior registered design.

Means of Protection

Community Designs

Community design protection applies throughout the Community and has a unitary nature. It provides both the option of (a) a *registered* and (b) an *unregistered* Community design right.

(a) The registered Community design

It can potentially last for 25 years, based on five-year periods.

The fact that the right is registered confers on the design great certainty should infringement occur.

The registered Community design gives an exclusive right to use and prevent making, offering, putting on the market, importing, exporting, using or stocking for such purposes, products incorporating the design, which do not produce a different overall impression.

(b) The unregistered Community design

The unregistered right is particularly useful for those designs where there is a relatively short period of time during which they are commercially viable, such as in fashion clothing.

Unlike a registered Community design, there is no need to file an application to protect an unregistered design.

At the same time, the unregistered Community design constitutes a right to prevent the commercial use of the design only if the use results from copying.

The Hague system of international application

The Hague system of international registrations of industrial designs is applicable among the countries party to the Hague Agreement.

This system gives the owner of an industrial design the possibility to have his design protected in several countries by simply filing one application in one language, with one set of fees in one currency. An international registration produces the same effects in each of the designated countries as if the design had been registered there directly unless protection is refused by the competent Office of that country.

D: COPYRIGHT

Conditions of Validity/Level of Protection conferred

Copyright gives the creators of a wide range of material, such as literature, art, music, sound recordings, films and broadcasts, patrimonial (economic) rights

enabling them to control use of their material in a number of ways, such as by making copies, issuing copies to the public, performing in public, broadcasting and use on-line.

Copyright arises for a creation that is considered to be original.

It also gives the creator moral rights to be identified as the creator of the work. Moral rights include the right of attribution, the right to have a work published anonymously or pseudonymously and the right to the integrity of the work (ie it cannot be distorted or otherwise modified).

Moral rights are distinct from any economic rights tied to copyright. Thus even if an artist has assigned his or her rights to a work to a third party, he or she still maintains the moral rights to the work.

Means of Protection

Copyright protection is automatic as soon as there is a record in any form of the material that has been created and there is no official registration or form or fee. However, in some countries, such as China and the United States, it is possible to register the right in order to facilitate its evidence in case of court action.

The Berne Convention

The 1886 Berne Convention first established recognition of copyrights among countries. Thus copyrights for creative works do not have to be asserted or declared, as they are automatically in force at creation: an author does not need to 'register' or to 'apply for' a copyright in countries adhering to the Berne Convention.

The Berne Convention also resulted in foreign authors being treated equivalently to domestic authors in any country signed up to the Convention.

The Berne Convention states that all works except photographic and cinematographic shall be protected for at least 50 years after the author's death, but parties are free to provide longer terms of protection, as the European Union did with the 1993 Directive (No. 93/98) on harmonizing the term of copyright protection. The chosen term was the life of the author and 70 years after his/her death.

E: GEOGRAPHICAL INDICATIONS

A geographical indication is a name or sign used on certain products or which corresponds to a specific geographical location or origin (eg a town, region or country).

The use of a geographical indication may act as a certification that the product possesses certain qualities or enjoys a certain reputation, due to its geographical origin.

Conditions of Validity/Level of Protection conferred

In 1994 when negotiating the Agreement Establishing the World Trade Organisation (WTO) and more particularly its Annex 1C: Trade-Related Aspects of Intellectual

Property Rights ('TRIPS'), governments of all WTO member countries agreed to set certain basic standards for the protection of geographical indications in their countries. There are two basic obligations on WTO members:

- all governments must provide legal possibilities in their national law for the owner of a geographical indication registered in that country to prevent the use of marks that mislead the public as to the geographical origin of the good.
- all governments must provide the owners of geographical indications the right under their national laws to prevent the use of a geographical indication identifying wines or spirits not originating in the place indicated by the geographical indication. This applies even when the public is not misled, when there is no unfair competition and when the true origin of the goods is indicated or the geographical indication is accompanied by expressions such as 'kind', 'type', 'style', 'imitation' or similar.

Means of Protection

The European Union went further than the TRIPS requirements – inspired by the French *Appellation d'Origine Contrôlée* (AOC) system, the *Denominazione di Origine Controllata* (DOC) used in Italy and the *Denominación de Origen* system used in Spain.

In 1992 the following systems were created by the European Union:

- Protected Designation of Origin (PDO): It covers the term used to describe foodstuffs which are produced, processed and prepared in a given geographical area using recognized know-how.

To be recognized as a PDO, a product must meet two conditions:

- 'the quality or characteristics of the product must be essentially or exclusively due to the particular geographical environment of the place of origin; the geographical environment is taken to include inherent natural and human factors such as climate, soil quality and local know-how';
- 'the production and processing of the raw materials, up to the stage of the finished products, must take place in the defined geographical area whose name the product bears'.
- Protected Geographical Indication (PGI): The geographical link must occur in at least one of the stages of production, processing or preparation. Furthermore, the product can benefit from a good reputation.

To be eligible to use a PGI, a product must meet two conditions:

- 'it must have been produced in the geographical area whose name it bears. Unlike to the PDO, it is sufficient that one of the stages of production has taken place in the defined area. For example, the raw materials used in production may have come from another region';
- 'there must be a link between the product and the area which gives its name. However, this feature need not be, as in the case of the PDO, essential or exclusive,

but it allows a more flexible objective link. It is sufficient that a specific quality, reputation or other characteristics be attributable to the geographical origin’.

F: PLANT VARIETIES

‘Varieties of all botanical genera and species, including hybrids between genera or species, may form the object of Community plant variety rights.

‘Variety’ shall be taken to mean a plant grouping within a single botanical taxon of the lowest known rank, which grouping (...) can be:

- defined by the expression of the characteristics that results from a given genotype or combination of genotypes,
- distinguished from any other plant grouping by the expression of at least one of the said characteristics, and
- considered as a unit with regard to its suitability for being propagated unchanged.’

(Council Regulation (EC) No 2100/94 of 27 July 1994)

Conditions of Validity/Level of Protection conferred

Community plant variety rights shall be granted for varieties that are:

- distinct, that is, clearly distinguishable from any other publicly-known variety;
- uniform in the sense that ‘if subject to the variation that may be expected from the particular features of its propagation, it is sufficiently uniform in the expression of those characteristics which are included in the examination for distinctness, as well as any others used for the variety description’;
- stable in the sense that ‘the variety, when reproduced, will remain unchanged after repeated propagation or, in the case of a particular cycle of propagation, at the end of each such cycle.’
- new, that is ‘if, at the date of application, variety constituents or harvested material of the variety have not been sold or otherwise disposed of to others, by or with the consent of the breeder, for purposes of exploitation of the variety:
 - (a) earlier than one year before the abovementioned date, within the territory of the Community;
 - (b) earlier than four years or, in the case of trees or of vines, earlier than six years before the said date, outside the territory of the Community.’

Means of Protection

The UPOV Convention of 1961 provides a *sui generis* form of IP protection which has been specifically adapted for the process of plant breeding and has been developed with the aim of encouraging breeders to develop new varieties of plants.

A system for the protection of plant variety rights has also been established by the European Regulation of 1994. It confers intellectual property rights to be granted for plant varieties and is valid throughout the European Union as a whole.

The European legislation grants the plant breeder control of the propagation material (including seed, cuttings, divisions, tissue culture) and harvested material (cut flowers, fruit, foliage) of a new variety and the right to collect royalties.

The term of the Community plant variety right shall run 'until the end of the 25th calendar year or, in the case of varieties of vine and tree species, until the end of the 30th calendar year, following the year of grant.'

G: SEMICONDUCTOR TOPOGRAPHIES

Semiconductor topography is essentially the design of a semiconductor product. A semiconductor product is an article that performs an electronic function. It consists of at least two layers, one of which must consist of semiconductor material in or upon which a pattern is fixed.

Conditions of Validity/Level of Protection conferred

According to Directive 87/54/EEC, 'the topography of a semiconductor product shall be protected in so far as it satisfies the conditions that it is the result of its creator's own intellectual effort and is not commonplace in the semiconductor industry. Where the topography of a semiconductor product consists of elements that are commonplace in the semiconductor industry, it shall be protected only to the extent that the combination of such elements, taken as a whole, fulfils the abovementioned conditions'.

Means of Protection

EU member states are bound to protect semiconductor topographies by the Washington Treaty, TRIPS and the Semiconductor Topographies Directive (Council Directive No. 87/54/EEC of 16 December 1986 on the legal protection of topographies of semiconductor products).

Following the adoption of Directive No. 87/54/EEC in 1986, there is an obligation on all EU Member States to adopt legislation to protect topographies in so far as they are the result of their creator's own intellectual effort and are not commonplace in the semiconductor industry.

The rights granted are exclusive rights. They include the right to authorise or prohibit reproduction of a protected topography and the right to authorise or prohibit commercial exploitation or the importation for that purpose of a topography or of a semiconductor product manufactured using the topography.

'The exclusive rights come to an end 10 years from the end of the calendar year in which the topography was first commercially exploited. Where registration is required, the 10-year period is calculated from the end of the calendar year in which the application for registration was filed or from the end of the calendar year in which the topography was first commercially exploited, whichever comes first'.

H: UNFAIR COMPETITION/PASSING OFF

Unfair competition is used in commercial law and can refer to any of various distinct areas of law which may give rise to distinct criminal offences and civil causes of action, including trade mark infringement and passing off.

Passing off is particular insofar as this tort applies in the United Kingdom and most of the Commonwealth.

Passing off is judge-made law. It concerns unfair competition more generally in situations where there does not need to be a registered trade mark or any other IP right. Passing off essentially occurs where the reputation of party is misappropriated by another party, so that his reputation and goodwill are damaged.

The law of passing off prevents one person from misrepresenting his goods/services as being the goods/services of the claimant and also prevents this person from holding out his goods/services as having some association or connection with the claimant when this is not true.

The three required conditions to passing off are reputation, misrepresentation and damage to goodwill, ie

- the claimant's goods or services have acquired a reputation in the market and are known by some distinguishing features;
- there is a misrepresentation by the defendant (whether or not intentional) leading or likely to lead the public to believe that goods or services offered by the defendant are goods or services of the claimant; and
- the claimant has suffered or is likely to suffer, damage as a result of the wrong belief engendered by the defendant's misrepresentation.

Appendix E: US and Japan initiatives

U.S. government policy initiatives

Institutional framework

The average business will probably never hear the name “NIPLECC,” the acronym for the National Intellectual Property Law Enforcement Coordination Council. Nonetheless, NIPLECC has become an important part of the government’s IP protection apparatus.

The 1999 law establishing NIPLECC charged it with coordinating domestic and international intellectual property enforcement among federal and foreign entities. In 2005, Congress broadened NIPLECC’s charter to include setting policies, objectives and strategies concerning international intellectual property protection and intellectual property enforcement; promulgating a strategy for protecting American intellectual property overseas; and coordinating and overseeing the implementation by government agencies of those policies, objectives and priorities and the execution of that strategy.

The Council includes the Office of the U.S. Trade Representative; the Department of Commerce – including the U.S. Patent and Trademark Office and the International Trade Administration; the Department of Homeland Security, which includes U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement; the Department of Justice; and the State Department.

To lead NIPLECC’s efforts, Congress created in 2005 the U.S. Coordinator for International Intellectual Property Enforcement (“the Coordinator”). As a result, NIPLECC has assumed a more central role and filled a gap that had inhibited coordination in the past.

Support measures

American companies are confronted with a growing problem of IPR abuses. It is estimated that in 2006, the Department of Homeland Security (DHS) seized 14,675 shipments of counterfeit and pirated goods valued at more than \$155 million, compared to 8,022 shipments of approximately \$93 million in 2005.

There are several reasons behind why businesses need help. First, their products are so successful than rather than compete with them, others try to imitate and profit from them illegally. Second, they also need help because they lack necessary knowledge about how to protect their IPR and enforce them. This is particularly acute for the SMEs sector. It is important to note that only 15% of small businesses that do business overseas know that a U.S. patent or trademark provides protection only in the United States. Third, taking IP enforcement actions involves significant costs and is time consuming.

American companies that discover that counterfeit copies of its products are being produced and sold to foreign and domestic markets have at the disposal the following options for action:

Visit the U.S. government web site (<http://www.stopfakes.gov/>) to access relevant information on how to secure and enforce IPR.

As background information, this initiative which is known as “The Strategy Targeting Organized Piracy-STOP!” was announced by the U.S. Administration in October 2004. It is led by the White House in cooperation with the Department of Commerce, the Department of Justice, the Department of Homeland Security, the Food and Drug Administration, the State Department and the Office of the U.S. Trade Representative.

Call a toll-free hotline (1-866-999-HALT) to speak with specialised attorney at the U.S. Patent Trademark Office or reach counsellors at the Office of Intellectual Property Rights at the Department of Commerce who work with rightsholders to develop strategies for addressing problems overseas

File a complaint about IP protection abroad by completing an online form.²

Find “IP toolkits” to guide them through securing and enforcing their rights in key markets around the globe.

Participate in trainings ranging from IP strategies for negotiating licensing agreements to the latest development on trade mark protection in China and many others.³

Request a free, one-hour consultation with a volunteer attorney experienced in both IPR issues and the Chinese market to learn how to protect and enforce intellectual property rights (IPR), such as trademarks, patents or copyrights, in China.

In November 2005, the U.S. Department of Commerce, in cooperation with the American Bar Association, the National Association of Manufacturers and the American Chamber of Commerce in China, established China Intellectual Property Rights Advisory Program.

In summary, the SME China IPR Advisory Program seeks to:

- Help American businesses understand the steps they must take to develop an intellectual property protection strategy for the Chinese market;
- Help U.S. companies facing China-related IPR disputes pursue resolution to their problems; and
- Reinforce the message that it is essential for U.S. companies to take action to protect and enforce their IPR in accordance with China’s civil, administrative and criminal laws, and that failing to act can have devastating consequences for future business.

In September 2006, the International IPR Advisory programme was launched following the model of the China Advisory program. The International Advisory Program covers other major world markets, including Brazil, Egypt, India, Russia, Thailand and Turkey. It is the initiative developed by the U.S. Department of

² In 2006 the Hotline received over 1,400 calls. The Trade Compliance team has received 160 formal inquiries from individuals or companies.

³ In 2006, the monthly China IPR webinar series held nine online training seminars for U.S. industry, reaching 400 online participants; and each session made available for downloading on a site which received 3,000 visits.

Commerce, in cooperation with the American Bar Association's (ABA) Section of International Law and the Coalition Against Counterfeiting and Piracy.

As a result, expertise is now available for Brazil, Russia, India, China, Egypt and Thailand.

Contact U.S. embassy to obtain further information about IP protection abroad.

The U.S. Administration is continuing to expand **IP attaché programme**. IP attachés are stationed in embassies around the world to enhance our ability to work with local government officials to improve IP laws and enforcement procedures in assisting U.S. businesses to better understand the challenges of protecting and enforcing their IPR. In China, the programme has been expanded to include attachés in Beijing and Guangzhou. There is also a training for U.S. embassy personnel to be first responders to IPR issues in order to identify problems abroad and assist rights holders before fakes enter the market and the supply chain.

Go online to record their registered copyright or trademark directly with the U.S. Customs and Border Protection (CBP), better enabling customs officers to identify and seize fake or counterfeit products at the border. **An online registration tool** is available at: <https://apps.cbp.gov/e-recordations>. To date, CBP has approved approximately 2,000 e-recordations of copyrights and trademarks.

Benefit from the ongoing efforts to strengthen laws and penalties related to intellectual property rights enforcement. For example, the Stop Counterfeiting in Manufactured Goods Act, which the President signed into law in March 2006, strengthens laws against trafficking in counterfeit labels and packaging. On 14 May 2007, the Justice Department submitted to Congress the Intellectual Property Protection Act of 2007 that would enhance the Department's ability to prosecute crimes and protect the intellectual property rights of citizens and industries. Among its many provisions, the Act includes measures that would: increase the maximum penalty for counterfeiting offences from 10 years to 20 years imprisonment where the defendant knowingly or recklessly causes or attempts to cause serious bodily injury, and increase the maximum penalty to life imprisonment where the defendant knowingly or recklessly causes or attempts to cause death; provide stronger penalties for repeat-offenders of the copyright laws; and ensure that the exportation and transshipment of copyright-infringing goods is a crime.

Get greater knowledge about IP protection through education campaigns that take place across the U.S to teach small and medium-sized enterprises how to secure and protect their rights and where to turn for federal resources and assistance. For example, the U.S. Patent & Trademark Office hosted 10 Road Shows in 2006, reaching out to more than 1,400 small business attendees. Six of the road shows focused upon issues facing small business and the other four concentrated upon China-specific issues.

Learn about the threats of counterfeiting and benefit from the U.S. Chamber efforts to combat them. In 2004, the U.S. Chamber through its National Chamber Foundation launched Global Anti-Counterfeiting and Piracy Initiative (<http://www.thetruecosts.org/>) to effectively thwart the growing global threat of counterfeiting and piracy. Companies can gain information concerning the U.S. Chamber of Commerce's current domestic and international programs and receive updates from Intellectual Property Rights experts.

Japanese government policy initiatives

Background

Faced with population decline and increased competition from developing countries in Asia, the Japanese government has placed increased emphasis on investing in science and technology. Intellectual property is accorded a key role for the “sound development of the national economy and creation of rich culture” and “intensification of the international competitiveness and sustainable development of Japanese industry” (Basic Law on Intellectual Property, Arts. 3 & 4). The Government of Japan have a stated aim of creating “a nation built on intellectual property” (see Cabinet Office 2006).

Japan spends \17,845 billion (€109.5 billion)⁴ on research and development, which is 3.53% of GDP (SOUMU 2006). Japanese firms have aggressively pursued IP rights over recent years, with the number of patent applications at the Japanese Patent Office rising from 376,615 in 1996 to 427,078 in 2005. In 2005 there were around 40,000 designs and over 135,000 trademarks (JPO 2006). The number of patents, trademarks and designs applied for by Japanese firms overseas has also been increasing, especially in China. SMEs have also been deepening their economic ties with Asian countries through establishing manufacturing bases (see METI 2006).

Reports suggest, however, that the number of companies facing problems with counterfeiting has increased, with the number of firms suffering damage over 100m USD rising from 44 in 1997 to 103 in 2001 (Cabinet Office 2005). Amongst the range of problems faced by SMEs that invest in Asia, surveys suggest that weaknesses in government institutions, business practices and administration undermine confidence in IP protection where “leakage of know-how” is feared. This problem is not just limited to SMEs (JETRO 2006: 67-68), yet when SMEs have experienced such problems, many have lacked the resources to effectively tackle the problem and have frequently ignored them (METI 2006: 102). Within Japan, a survey for the JPO in August 2008 found that 45.2% of respondents saw no problem with buying counterfeit or pirated goods (JPO 2007).

Geographic proximity to the main counterfeit producing countries (see Customs and Tariff Bureau 2006) and concern over the impact of these goods on economic growth has seen the introduction of wide ranging reforms. These include strengthening and overhauling the institutional base, human resource development, developing support and advice structures and seeking to develop international movement on measures to counter counterfeiting activities. This report will provide an overview of these measures for Japan.

Institutional Organisation

Intellectual Property Strategy Headquarters were established in the Cabinet Office in 2002 (Law 122, Chapter 4) for developing measures for the creation, protection and use of intellectual property. The Headquarters are directed and supervised by the Prime Minister and as of March 2007 there are twenty-seven other members comprising four Vice Chairmen from the Cabinet Office, the Ministry of State for Education, Culture, Sports, Science and Technology (MEXT) and the Ministry of Economy, Trade and Industry (METI). Thirteen members are drawn from other government ministries; ten members are experts in IP issues drawn from the private sector (large firms), the legal profession and universities. The Intellectual Property

⁴ €1 = \163.045 Yen (April 2007)

Strategy Headquarters produce an annual strategic plan on IP issues. Furthermore, the Headquarters currently has two specialist investigation committees, which cover the Knowledge Creation Cycle – the links and flows between different institutions in the innovation system, and flows between Japan and the World; and the Contents Specialist Investigation Committee, which serves to promote the contents (gaming software, arts, anime and digital contents) industries. Two former committees include the Special Investigation Committee on the Protection of Patents and Medical Acts (2003-2005) and the Special Investigation Committee on Strengthening the Foundation for Intellectual Property Rights (2003-2005). Within the Cabinet Secretariat the Counterfeit and Piracy Countermeasure Related Governmental Agency Committee also exists. This was established in 2004 and comprises members solely from government. This committee developed a specific action plan against counterfeit goods in 2006.

Amongst other institutions involved in IP related issues, METI stands as one of the main institutions. The Office for Intellectual Property Right Infringement was established within METI as a consolidated consultation section in 2004. Furthermore, the Japan Patent Office (JPO), which is attached to the Ministry is active in granting exclusive rights for patents; drafting plans for IP policies; promoting international exchange and cooperation to assist international harmonization and assistance to developing countries. The Commissioner of the JPO reports directly to the Minister of State for METI. METI is also the home of the Small and Medium Sized Enterprise Agency which has a number of Small and Medium sized Enterprise (SME) promotion policies in place.

In 2005 the Intellectual Property High Court was established, The High Court hears appeals from district courts in Japan on patent actions and suits against appeal/trial decisions made by the JPO (for statistics on the number of appeals and trial decisions, see JPO 2006). The High Court was established on the basis of recommendation by the Special Investigation Committee on Strengthening the Foundation for Intellectual Property Rights (from the Strategic IP Council) which observed that the establishment of the court would symbolise the importance placed on IP by Japan, would accelerate the appeal and decision process and allow for greater use and development of technology specialists (Cabinet Office 2003). The court was based on the Partial Amendment of the Court Organisation Law (2004).

Within other government ministries, the Ministry of Foreign Affairs (MOFA) established an IP Affairs Division in July 2004 for dealing with cases of infringement of foreign IPR held by Japanese companies. Embassies attached to the Ministry are now involved in making representations to representatives of countries where the incidence of counterfeiting is high as well as providing support for Japanese firms with bases overseas. MEXT is active in relation to collecting and dispersing information on counterfeited goods and IP infringement, developing human resources in IP, and issues relating to copyright law through broadcasting rights. Furthermore, MEXT is involved in initiatives related to capacity development in developing countries. The National Police Agency is involved in the policing of IP and counterfeit related crimes. Japan Customs are involved in policing Japan's borders.

There are a range of representative business organisations involved in efforts to counter counterfeit goods. In 2002 the International Intellectual Property Protection Forum (IIPPF) was established by businesses and business associations to share information on measures to counteract counterfeiting as well as lobbying governments on the need to address weaknesses in the system. There are currently 193 Members. The Anti Counterfeiting Campaign Association (ACCA) established in

1986, comprises various business alliances. Keidanren, which mostly represents large firms, have been active supporters of efforts to counter counterfeiting acts (Keidanren proposals prior to the G8 summit in Berlin (2007) as well as SME representative organisations such as the Organization for Small & Medium Enterprises and Regional Innovation (SMBJ), and regional offices of METI which organize seminars and information events.

Legal and Regulatory Framework

Many of the initial legal acts structuring IP have been amended following passage of the Basic Law on Intellectual Property (Law 122, 2002; hereafter: Basic Law). The Basic Law provides the framework which governs IP law explaining the role of different actors in the setting and implementation of IP. The role of the State is explained in Art. 5, local government (Art. 6), universities (Art. 7) and business enterprises (Art. 8). The Basic Law also has Basic Measures which relate to the promotion of research and development (Art. 12), the promotion of the transfer of research and development results (Art. 13), the prompt granting of rights (Art. 14), effective and prompt legal proceedings (Art. 15), measures against the infringement of rights (Art. 16), the establishment of international systems (Art. 17), protection of intellectual property in new fields (Art. 18), provision of information (Art. 20), promotion of education (Art. 21) and securing human resources (Art. 22). The changes in the overall legal and institutional structure of Japan will be presented in the next section.

In 2004 the Policy Package to Accelerate Measures against Counterfeiting and Piracy was introduced. Key measures are:

- 1) Establish a system to investigate unfair IP practices and problems overseas
- 2) Efforts for overseas markets
 - Strengthen the function of embassies to deal with IP abuse; develop one-stop consultation services for information and advice about counterfeiting
 - Support capacity building in countries where infringement has been common by encouraging the introduction of countermeasures, explore the possibility of linking IP related policies with Official Development Assistance (ODA) and raising awareness of IP issues;
 - Strengthen cooperation between government authorities through accelerating customs assistance agreements with China and with the European Union (EU); enhancing cooperation and information exchange amongst police authorities; strengthening cooperation with copyright departments in China and Korea; and promote cooperation amongst patent offices in China and Korea on the basis of the China-Korea-Japan summit concluded in 2004.
- 3) Cooperation with Europe and the US.
- 4) Multilateral Frameworks through using treaties and ministerial declarations; promoting discussion at the highest levels and with APEC.
- 5) Promotion of bills related to counterfeiting and piracy.

In terms of comparison with the EU, the 2005 Action Plan by the Commission sets out a set of similar measures to Japan in terms of incorporating business involvement, use of information, raising awareness and publicity, re-enforcing international cooperation and seeking to place officers in source countries (COM(2005) 479 final). The main differences in approach with regard to counterfeiting appear slight. Where differences do arise, these may appear in relation to capacity building in source

countries which do not appear to feature in the EU Action Plan. One of the main instruments held by the EU is Council Regulation (EC)No 1383 and by comparison, the main Customs Law (2005) in Japan has rather limited scope with regard to IP infringement. Most of the key regulatory reforms governing Japan's border controls, as will be observed below, have come through related acts, such as amendments to the Copyright Law, the Customs Tariff Law and the Seeds and Seedlings Law. Overall, the Basic Law and the Policy Package to Accelerate Measures against Counterfeiting and Piracy have broad objectives in seeking to develop a more strongly based IP culture within Japan and in that respect the differences with the EU are wider. Much of these differences may rest on governance differences where the EU sets the regulatory framework with implementation in the hands of member states.

Policy Developments

The Basic Law has ushered in a period of substantial policy change. As the government has sought to implement provisions within the Law, earlier acts which governed the intellectual property system have been partially amended⁵. This includes revision of the Patent Act (Act 121, 1959), covering employee inventions. Partial revisions of the Customs Tariff Law have allowed for the strengthening of Japan's borders against counterfeit goods (2005). Revisions to the Trademark Act (Act 127, 1970) were introduced to protect local brands. The Seeds and Seedlings Law (Act 83, 1989) was revised to encompass a range of different types of plant variety. The Copyright Law (Act 48, 1970), was revised to assist digital broadcasting, strengthening penalties for IP and copyright infringement, and limiting the entry of inappropriate sound recordings into Japan. The Law for Partial Amendment of the Law for Supporting SME Management Innovation (2004) has sought to promote management reform and provision of subsidies to support new technologies. The Law on Advancement of Basic Manufacturing Technology of SMEs (2006), has allowed high technology SMEs to raise their credit limit and reduce patenting costs. The government is currently considering whether to allow inclusion of indirect infringement of copyright into the revision of the Copyright Law (conclusion towards the end of 2007). The Law has also led to the introduction of new laws, such as the Law Concerning Promotion of Creation, Protection and Exploitation of Contents (Law 81, 2005), which includes film, music, theatre, literature and the arts, photography, manga cartoons, animation and computer games.

Each of these legal reforms have been introduced on the basis of the Basic Law, but have been explained in Intellectual Property Strategic Plans introduced on an annual basis since 2003 by the Strategic Council on Intellectual Property. These plans have had numerous objectives concerning university IP management, clarifying or enhancing IP rules, enhancing IP protection, IP exploitation, developing human resources, and measures against counterfeiting and piracy. The 2003 Strategic plan sought to address 270 items. The 2004 plan outlined 400 items. In 2005 there were 450 items and in for the most recent 2006 plan, 370 items.

Specifically regarding counterfeit and pirated goods, the Intellectual Property Promotion Plan for 2006 outlined the following measures:

- 1) Aim for early adoption of the Treaty on the Non-proliferation of Counterfeit and Pirated Goods
- 2) Strengthening regulations surrounding importation of counterfeits and pirate copies by individuals - *Individuals are currently not prohibited by law by possessing*

⁵ A full list of revisions to relevant laws can be found in the appendix.

counterfeit or pirate copies. The Government will seek to introduce a new law on this matter.

- 3) Preventing the trade of counterfeit and pirate copies via internet auctions - *publicise rules for E-Commerce by commercial dealers.*

The Government also sought to introduce measures against counterfeiting and pirate copies in overseas markets. These measures included:

- 1) Strengthening measures against countries and regions where infringements have been exposed - *To provide support to Japanese companies affected by counterfeit and pirated goods, overseas establishments under the initiative of Ambassadors will place pressure on countries to introduce regulatory countermeasures. Furthermore, overseas offices operated by the Japan External Trade Organisation (JETRO) will provide support and advice to companies regarding counterfeiting.*
- 2) Utilisation of the Content Japan (CJ) mark - *The Japanese government has supported the dissemination of the Content Japan (CJ) mark in order to enhance the exposure of pirate or counterfeit products.*
- 3) Utilise the Infringement Situation Survey – *Drawing on the Survey on Intellectual Property Infringements Overseas to monitor the seriousness of IP infringement. Reports have been drafted on efforts and measures under development in those countries where the production of counterfeit goods exists.*
- 4) Utilise Free Trade Agreements and Economic Partnership Agreements
- 5) Develop Customs Mutual Assistance Agreements - *To strengthen cooperation with foreign countries through consultation with foreign customs authorities on frameworks to develop new mutual assistance agreements.*
- 6) Strengthen Co-operation with the United States and Europe
- 7) Investigate the damage due to counterfeits and pirated copies - *Drawing on know-how and related information the government will review how to respond to issues of piracy and counterfeit goods.*

The 2007 Strategic Plan has not yet been published. However, following a consultation period over March 2007, further opinions within the Strategic Intellectual Office were sought on 17 April. These related to patenting for combination therapies, discussion of the first-to-invent system as operated in the United States. Specifically with regard to counterfeiting, the importance of reforming anti-competition law in China; developing countermeasures against third party countries that import counterfeit goods through China; shortening the time on specialist investigations into stopping pirated goods (Cabinet Office 2007).

Based on the 2006 Strategic Plan, the Counterfeit and Piracy Countermeasure Related Governmental Agency Committee also presented specific measures to aim for “zero” counterfeit and pirated goods in Japan (2006 Action Plan). The main themes in this action plan relate to strengthening countermeasures against infringement through collecting opinion from JETRO and business related representatives; supporting the Manual against counterfeiting; strengthening links with other Asian countries; capital building measures such as seminars, manuals; strengthening measures against individuals that import counterfeit goods; strengthening of border controls; strengthening measures for internet auctions; and strengthening communication and links with different government departments.

Current policies differ markedly from those that were implemented five years earlier. Most of the major acts relating to IP have been reformed in some way either to change the incentives for IP, accelerate patent application processes, develop more

human resources in IPR, strengthen control at Japan's borders, make IPR more inclusive with regard to new plant varieties and seeds, digital contents, and changing the scope of copyright and trademark legislation. Furthermore, efforts have been made to support SMEs, where it was felt that they had previously failed to appreciate the importance of IP (Intellectual Property Strategic Programme 2004: 96).

Enforcement

A range of measures have been introduced to enforce protection, support government in their negotiations with overseas government and support those organizations that represent Japan overseas. Enforcement has proceeded through:

- Criminal penalties for infringements of intellectual property rights being tightened through the revisions of the Copyright Law, the Unfair Competition Prevention Law and the Seeds and Seedlings Law. The upper limit for the term of imprisonment with work was raised to 10 years and the amount of fine raised to \10 million (€61,000). In addition, "Exporting" was included in the scope of acts deemed as infringements under the Patent Law.
- Forty-nine officials were assigned at the Tokyo Metropolitan Police Department for preliminary determination of trademark right infringement. Four experts capable of distinguishing pirated copies from genuine plant varieties registered under the Seeds and Seedlings Law, were appointed as Plant Variety Protection specialists for the National Centre for Seeds and Seedlings. Six experts were additionally appointed in 2006.
- Organizational arrangements were made for diplomatic authorities by distributing the Manual to Cope with Intellectual Property Infringements and deploying officials in charge of intellectual property affairs in overseas establishments. This manual has country specific information (see JPO 2007; see also JETRO 2006).
- Arrangements have been made for METI to be a one-stop consultation centre for advice and information on IP related issues. Within each region in Japan there are also similar organizations, chiefly to serve SMEs (see SMRJ 2007).
- The Content Overseas Distribution Association (CODA) established the Content Japan (CJ) Mark (see Cabinet Office 2006).
- A public campaign against counterfeit and pirated goods was operated by the JPO (see JPO 2007).
- Free Trade Agreements and Economic Partnership Agreements were agreed between Japan and Singapore (2002), Japan and Mexico (2005). These seek to ensure protection of IP, increase the transparency of IP systems and enhance IP enforcement (see JPO 2006)
- The Customs Tariff Law and the Customs Law strengthened regulations of intellectual property-infringing products at borders.
- The Survey on Intellectual Property Infringements Overseas was introduced to gather information from Japanese private companies and organizations to support bilateral discussion with overseas governments.
- Products infringing patent rights and other intellectual property rights were included in the scope of articles for which export suspension may be applied. Import was also prohibited with respect to products infringing breeder's IPR.
- A system to notify right holders of information on exporters and importers was introduced.
- Import with respect to products that imitate the configuration of another holder's IPR was prohibited.

- The system to hear expert opinions during the procedure to apply for export suspension and infringement determination were introduced. Control of IPR infringing exports were also introduced

Looking at infringement cases, the number of people arrested for crimes related to IP infringement have increased gradually since 2003, rising from 431 persons to 783 in 2006; confiscation of counterfeit goods has increased from 64,711 in 1997 to 326,314 in 2006 (National Police Agency 2007).

Support Initiatives

Measures related to small and medium sized enterprises (SMEs) relate to reducing the costs of IP, streamlining the application and approval processes and providing greater information and resources. The 2003 Strategic Plan did not specifically address issues on SMEs. In 2004, various measures were introduced to support the patent acquisition process that included the reduction in patent fees and simplification of patent procedures, subsidies covering national and overseas patent related consultancy; support for companies using new technologies on patent application and consulting fees; the support of patent and technological investigations for SMEs with free access to the search results (Strategic Plan 2004: 3,4,(1),i-iv). In the 2005 strategic plan, the establishment of Comprehensive Support Centres for SMEs was outlined to provide advice and information from specialists and lawyers. Furthermore, the 2005 plan sought to support capacity building in countries where there have been infringements.

Efforts have been made to increase the number of lawyers capable of handling IP related issues through expanding provision of IP courses in national graduate and law schools. However, in comparison to the US and China, Japan has a shortage of registered lawyers and suitably qualified personnel (see the 2005 Strategic Plan: 182). This issue is especially acute in the regions of Japan. For those involved in assisting SMEs in managing their IP, there have been complaints over the burdens imposed, the time taken and communication issues (see Japan Patent Attorneys Association 2006)

International Cooperation

The main components of international cooperation cover the following aspects:

- **Japan-EU Periodical Summit**

- In the June 2004 summit, an agreement was reached to adopt the Japan-EU Joint Initiative for Enforcement of Intellectual Property Rights in Asia. In accordance with this initiative, Japan-EU meetings were held for the exchange of information and opinions, and joint seminars have also been held in China.
- In May 2005, an agreement was reached to further promote the Japan-EU Joint Initiative for Enforcement of Intellectual Property Rights in Asia, with the objective of dealing with counterfeits and pirated copies in Asia.
- In April 2006, the Japan-EU Summit agreed to continue dialogue on the issue of counterfeiting, piracy and other IP issues, including dialogues relating to the establishment of an international legal framework for non-proliferation of counterfeits and pirated goods.

- **Other Japan-EU Activities**

- In 2004, the Japanese Government held a workshop with the EU on the development of the content business.
- The Japanese Government will start cooperation in patent examination with the EU in 2006

- **Bilateral Meetings**

- Japan-France summit
In March 2005, agreement was reached to adopt the Declaration for a Japan-France Partnership and to recognize the importance of promoting measures against counterfeits and pirated copies in Asia.
- Japan-United States:
Engaging in bilateral consultations to promote protection of intellectual property rights in Asia

Multilateral Efforts

- The Japanese government is supporting discussion counterfeiting and piracy among various international organizations and summits, including the G8, Organization for Economic Cooperation and Development (OECD), Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), World Trade Organization (WTO), World Intellectual Property Organization (WIPO) and World Customs Organization (WCO).
- Promotion of discussion on the OECD Project on Counterfeiting and Piracy initiated in 2005.
- Based on the APEC Anti-Counterfeiting and Piracy Initiative, development of new guidelines and areas where new intellectual property rights can be included in the scope of protection.
- The JPO has dispatched experts to developing countries through the WIPO Funds in Trust programme and the Japan International Cooperation Agency. The experts provide on-site instructions regarding examination practices and computerization of information. The JPO accepts trainees and long-term trainees from developing countries as well as organises forums and seminars such as the WIPO Asia and Pacific Regional Symposium and the WIPO High Level Forum on Intellectual Property Policy and Strategy.

Links with China

Both the Japanese Government and Japanese Business Associations have been seeking to strengthen relations with China. It is difficult to say which are the more effective although the steps taken by government appear to both more comprehensive, structured and visible. At the government level, the following developments have occurred.

- At the Japan-China-Korea summit held in November 2004, an agreement was reached to reinforce cooperation among the three countries for protection of intellectual property rights.
- Discussion with examiners in China, the Republic of Korea to promote cooperation in patent examination.
- Dispatch of public-private joint missions to China and the Republic of Korea to encourage these countries to expand the scope of plants eligible for protection.
- Promoting Cooperation in Examination and the Development of Systems Related to the Protection of Rights on New Plant Varieties - With the aim of coping with the global increase in the number of applications for registration of new plant varieties
- In 2006, the Japanese government requested Asian countries and regions to tighten controls over counterfeits and pirated copies utilizing the World Trade Organization's (WTO) Transitional Review Mechanism (TRM) for

China, the WTO review of the implementing legislation for the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) and the WTO Trade Policy Review Mechanism (TPRM).

- Provision of support for examination, human resource development and computerization, as well as promoting public-private cooperation toward harmonization of patent systems and operation in Asia.

At firm and representative organization levels, the International Intellectual Property Protection Forum dispatched missions to China in December 2002, May 2004 and April 2005 (see IIPPF 2005), to exchange opinions with the Chinese government on the issue of counterfeits and pirated copies. Furthermore, in November 2004, a Japan-China meeting was held for an exchange of opinions among the electronics industry and the relevant authorities. The ACCA has held investigation tours and training sessions in China in 2001, 2002, 2003 and 2005 (ACCA information). The Japan Trademark Association Counterfeit Countermeasure Committee has also dispatched teams to China (JPTMA 2007).

Appendix F: Initiative and SME case studies

Initiative case studies

Innovation Protection Programme (Austria)

Entertaining business relationships in Asian emerging markets may involve a lot of perils regarding the counterfeiting of innovative products. According to the Austria Wirtschaftsservice (AWS), the main development and funding agency in Austria, infringements of patent rights in China cause a loss of presumably 15 MEUR and 7,000 jobs for Austrian companies. In spite of evident risks, more than two thirds of the European businesses renounce the registration of patents in these countries because of the high costs and seemingly small advantages (Source: <http://www.awsg.at>). Against this backdrop, policy makers wished to establish a medium-term model of an efficient support mechanism for the Asian market in Austria.

The result of this endeavour was the creation of the **Innovation Protection Programme (IPP)**. IPP is Austria's most important initiative supporting SMEs to tackle the problem of counterfeiting and other intellectual property rights (IPR) abuses. Provided by the **AWS**, the Innovation Protection Programme offers support and assistance for Austrian businesses in protecting their IPR in emerging markets - mainly in China and prospectively also in India and Russia. The initiative focuses exclusively on SMEs who have their own technological expertise and seek for support in the enforcement of their IPR. The institution responsible for financing the service is the Federal Ministry of Economics and Labour.

The service of IPP consists of several sub-measures, including help with the registration of intellectual property rights and counselling. Besides, lectures and presentations are being organised, in order to provide information on the programme and issues related to it, thus raising the patent and IPR consciousness of SMEs. Along the same line, and a little bit more tailored to individual supported SMEs, IPP carries out market analyses in order to evaluate the SMEs' patent and marketing strategies and recommends a specially-tailored strategy to protect the IPR in China and other emerging countries. In addition, the AWS offers support in finding trustworthy legal advice in China and in registering the IPR there. Continuous monitoring of market developments carried out on behalf of the supported SMEs aim at revealing intellectual property rights abuses at an early stage.

It must be stressed, however, that a large share of SMEs approach the AWS with infringement claims, but actually do not have a former IP right related to their claims registered anywhere. Those SMEs can hardly expect successful settlement of their claims and are thus mostly rejected support. In case of evidenced infringement and existing IPR, however, the AWS develops an enforcement and litigation plan detailing actions to be taken and the form and scope of the agency's involvement. Within the range of these activities, the AWS mostly consults its local networks and alliance partners in the target countries. Subsequently, information is gathered to review the specific case. Most of the time, it suffices to offer cooperative help, i.e. to show possibilities of consensual solutions, keeping the local conditions in mind. The position of the AWS is clearly stated: The goal is not to litigate, but to mediate – the reason being that successful litigation is risky and lengthy.

IPP started in autumn 2006 and is therefore a rather young programme. As far as the design of the programme is concerned, however, the AWS was able to draw on extensive experience in fostering the usage of intellectual property rights for more than a decade. An example for this is the programme *tecma* financed by the Federal Ministry for Economics and Labour, which helps commercialising inventions through fostering licensing agreements; another is the “Patentkreditaktion”, which offers loans for the registrations of patents and has been integrated into IPP from 2007. The patent support measure “**Patentkreditaktion**” (patent credit action) consists of the awarding of government grants for patent applications and is not limited to registering IPR in the target countries. Within the scope of this scheme, the AWS offers bank guarantees for loans taken out with retail banks to finance patent applications, if collaterals cannot be provided. By taking the step of integration into IPP, synergy effects, i.e. in the sense of a one-stop shop service, are sought for. The main challenge during the implementation stage was to cope with the existing prejudice that the situation concerning the protection of IPR is unchangeable.

The budget of the programme amounts to 9 MEUR for the first six years. The designated target of the programme is to gain economic advantages of 45 MEUR and to preserve about 25,000 jobs. SMEs can apply for support until 31 December 2013. The AWS takes over up to 50 % of the costs for registration of patents, which can vary by case very much. The costs of registration including translation and legal fees amount to between 5,000-10,000 EUR. The AWS employs three European-born sinologists who have deepened their expertise by having lived in China. Service staff travel a lot between Austria and the target countries, and on-site support for a longer time is guaranteed.

The success factors of the initiative are the knowledge of the economic condition in emerging markets, the on-site competence, the individual approach to each SME which sets also limits to the amount of supportable companies, however, the financial advantages for the companies (through the grants) and good understanding of and relationships with the local authorities in the target countries. Furthermore, the most successful strategy (and the one employed by the AWS) for a programme like IPP is that it has to get all the parties involved from the beginning in order to create a winning situation for all of them. A final success factor relates to the size of the support offering institution. The organisation leading the initiative has to have a reasonable size in relation to the land it is in charge of. The AWS has the right size as far as Austria is concerned, but a bigger country may have different needs, according to the AWS.

Comprehensive data on the effectiveness and performance of the service is not yet available, due to the mentioned young age of the service. So far, there is only anecdotal evidence to illustrate on one hand the effectiveness of the programme and on the other hand the necessity of policy intervention. An example where the AWS has successfully given advice to applicants is that of the Frauscher GmbH. The Frauscher GmbH is a leading producer of wheel sensors who feared that at some time in the future Chinese manufacturers would copy the company’s product. The AWS helped in the filing of five patents in China by providing specific consulting, without which Frauscher would have had a considerably more difficult time to achieve its goals. A respective success story has been published in a reputed Austrian economy magazine.

The Counterfeiting Round Tables (Belgium)

The 'Round-tables' on counterfeiting were launched in September 2006 by the State Secretary for administrative simplification, the Ministry of Finance and the Ministry of Economy. They were the result of a meeting between a law firm representing the interests of companies producing watches - victims of IPR abuses and the Minister of Finance. The focus of the discussions was on the methods and means, which could help to raise public awareness about the danger and negative effects of counterfeits.

These 'Round tables' have brought together various stakeholders, including the public bodies, the customs, some law firms, industrial actors as well as associations representing both big companies and small and medium-sized enterprises. The main sectors represented were perfume, alcohol and tobacco, pharmaceutical products and textiles.

As a result, three working groups have been organised during the first round-table discussions. Specifically, the first working group focused on the aspects relating to cooperation between the police and custom services. The second group discussed legal aspects, especially possibilities of introducing modifications to the bill on IPR abuses, while the third working group explored the possibilities of launching awareness-campaigns towards the consumers. It is worthwhile underlying here that the latter is the only group that is still operational.

The first meeting gathered approximately 50 persons. Since September 2006, 15 meetings have taken place. The main results of this initiative were that the bill on counterfeiting and IPR-piracy was adopted in April 2007 and entered into force. This should help, on one side, all actors facing counterfeiting to take legal actions and, on the other side, to avoid the importation of counterfeit products. A monitoring system has also been put into place, which enables the customs to know all details about past and ongoing cases. Moreover an awareness campaign towards the consumers using mainly posters has been launched in harbours and airports.

These results can appear interesting in the sense that such round-tables do not bear any cost in themselves. Nevertheless, it is worthy pointing out that the awareness campaigns should be financed and this issue is still the critical one. Private actors expect the public bodies to allocate financial resources necessary for organising such campaigns. An amount of 1 MEUR is requested. The public bodies argue that the impact of counterfeiting on the state income in terms of taxes is relatively small. For the moment, only preparatory tests using approximately 1,200 consumer-surveys have been conducted to learn about the level of knowledge of individuals on counterfeiting issues.

The establishment of such platforms is considered by both the private and public sector as useful tools to exchange experience on issues related to counterfeiting in a structured way. One of the lessons learnt from the experience of these 'Round-tables' is that companies representing various sectors do not want to use the same tools to fight against IPR abuses. For example, the drug sectors does not want to use awareness campaigns since it may frighten the consumers and negatively impact the commerce of legal drugs. Furthermore, as it has been emphasised by a representative of the textile sector, focusing on the consumer responsibility is reversing the problem. Finally, what appears to be of primary importance for this sector is to find out ways to provide training to customs on such specific issues.

Regional Fund of Industrial Property Diffusion (France)

The Regional Fund for Industrial Property Diffusion (FRDPI) is an initiative managed by the French Institute of Intellectual Property (INPI). It started in 2001, with an annual budget of approximately 1 MEUR per year as a follow-up of local initiatives supported via projects launched in 1998.

The FRDPI is a programme aimed at the implementation of collective IP-oriented actions. The direct beneficiaries of this measure are research agencies, which are able to reach IPR users in the field. All accompanying structures of the economic and technological development of the companies can profit from the support of the INPI i.e. Chambers of Commerce and Industry but also universities, incubators, regional centres of technical development, etc.

INPI can support the programme with a total value of 50% of the committed expenditure. It can also provide technical assistance (e.g. patent and trade marks searches), and methodological support in setting up training schemes. During the period 2001-2007, 67 collective actions representing more than 7 MEUR have been carried out, with a financial participation of the INPI of 2.7 MEUR.

The INPI-partners receive support to implement programmes aiming at a better appropriation of industrial property for themselves, but also for the enterprises they support. The concrete objectives of the measure are to:

- support the structures for economic development (IPR-diagnoses notably);
- set up communication, awareness-raising and training actions;
- assist exploitation services and incubators;
- develop and create specific awareness-raising tools.

Awareness-raising and training actions are considered by the INPI as the first steps for the implementation of actions in enterprises to fight against counterfeiting. According to a study conducted by an audit company in 2005: "The FRDPI meets the needs for SMEs in the IPR area. Some actions have led to reproducible products, which allow streamlining an approach that was firstly experimental".

For the INPI, key success factors of this initiative are: the high involvement of local partners as well as an offer adapted to the needs of SMEs and of the research sector. The major challenge regarding implementation lies in the capability of local partners to mobilise the stakeholders. Some programmes indeed encounter difficulties for detecting and mobilising final users. Therefore, the local communication part of each programme is of key importance and should not be neglected.

According to the INPI, partners are now aware that they can set up actions around IPR issues and find in the INPI the financial support, competencies and expertise they need to be able to achieve their goals. Nevertheless, if the initiative was to be re-thought today, the INPI's offer to the partners should be formalised earlier, in order to give clear guidelines to the INPI's agents responsible for carrying out negotiations with partners. Such document was prepared in 2006.

To enhance the initiative, several paths are explored by the INPI:

- rely on existing networks in order to be able to better cover SMEs with 20 to 250 employees;

- concentrate the INPI intervention where it is the most useful (awareness-raising, training, pre-diagnosis and other forms of accompanying measures);
- take into account the diversity of regional situations (sectoral specificities, regional policies, networks' dynamism); and
- introduce more scope for feedback from the users.

Pre-diagnosis Industrial Property 'Pré-diagnostic propriété industrielle' (France)

Launched in 2004, the Pre-diagnosis Industrial Property (Pré-diagnostic propriété industrielle) is a unique initiative in France that allows putting directly in touch micro and small, small and medium-sized enterprises (SMEs) that are unaware of IPR issues with IP specialists. It is managed by local and regional offices of the French National Institute for Intellectual Property (INPI). The current annual budget represents approximately 400,000 EUR.

Actions are targeted at SMEs, which do not or poorly use their industrial property rights, in the sense that they have not registered patents during the last five years. The other eligible beneficiaries are laboratories as well as enterprises hosted in incubators.

The pre-diagnosis is conducted by an expert of the INPI, a specialist in industrial property or a consultant proposed by the INPI. The cost of the service are entirely covered by the INPI, the enterprise has therefore nothing to pay. It consists in a 1,5 day on-site visit with a diagnosis of the current needs of the company, an analysis of the competitive advantages and the presentation of general recommendations for action.

In order to make the IP-pre-diagnosis credible and sustainable, the quality of the service is ensured through the implementation of a standardised approach that all INPI's and external experts have to follow. This concerns the form of the visit and of the reports but also the content that needs to be addressed with the beneficiary.

The main objective of this pre-diagnosis is to put in place a simple and practical service to make enterprises that are not making use of industrial property aware of IPR issues. For the INPI, awareness-raising actions represent the first stage to become aware of IPR and to avoid counterfeiting. The emphasis put by the experts on the risks encountered gives enterprises the possibility to take necessary measures in order to secure their assets.

By the end of 2006, 1500 pre-diagnosis have been completed. The objective is to conduct 500 IP-pre-diagnosis in 2007. The satisfaction rate of the companies (higher than 90%) could be regarded as a proof of efficiency of the initiative.

One of the key factors behind the success of the measure is, according to the INPI, the existence of good public relays in the field, which are able to detect beneficiaries thanks to their knowledge of the industrial base. An efficient prescription of the IP pre-diagnosis requires indeed constant information and mobilisation of the network of partners. That is the reason why INPI aims at including the prescription of an IP pre-diagnosis as one of the objectives of the conventions for the Regional Funds for Industrial Property Diffusion (FRDPI).

One other key factor for the success of the initiative lies in the development of a constantly bigger panel of knowledgeable experts, who are able to raise IPR-

awareness. For this purpose, the INPI tries to mobilise the persons that received a specific diploma ("Presenter Industrial Property certificate": Certificat animateur Propriété Industrielle) for realising IP pre-diagnosis. Concerning the implementation of the pre-diagnosis, another important challenge is to manage to provide training to IP-specialists also on industrial strategy aspects, such as on the relationship between the industrial property and the development of a small or medium-sized enterprise.

Another challenge for the INPI is to manage to diffuse this initiative towards SMEs with more than 20 employees (75% of the beneficiaries) and in the region of the Ile-de-France. The marketing policy of the IP pre-diagnosis, which is conducted without any investment in communication, leads indeed to the point that it appears difficult to reach "big" SMEs, which have often no contact with the networks of the regional Chambers of Commerce. According to the INPI, this is also true for other innovation schemes. Therefore, if the initiative should be redesigned today, INPI claims that they would invest more in communication issues.

The German Business Action Group against Product and Trademark Counterfeiting (Germany)

The German Business Action Group against Product and Trademark Counterfeiting (APM e.V.) has been the leading organisation in fighting against product and trademark counterfeiting spanning different branches of trade since 1997. APM was founded in a joint initiative of the German Chamber of Commerce (DIHK), the Federal Association of German Industry (BDI) and the Brand Association (MARKENVERBAND).

Main objectives are to gather information on problem cases and to analyse positive and negative experiences.

The collected and edited information are supposed to provide the German federal government with better overview of the situation regarding counterfeiting, which eventually enable the government to discuss specific cases with its Chinese partners.

The APM works on different levels against brand and trademark counterfeiting in all business sectors. Besides general lobbying on national and EU levels, APM contributes to the information exchange and supports its members in cases of violation of intellectual property rights. The initiative cooperates with professional investigators by direct order of members or in cases where members have requested a monitoring.

In co-operation with the DIHK, APM has started a survey on how German enterprises are affected by product and trademark counterfeiting of Chinese origin in order to provide case studies to the German government. They are transmitting the experiences regarding product and trademark counterfeiting to decision makers, governments and administrations both at home and abroad, so that they can address the issue on the occasion of ministerial visits or bilateral negotiations.

APM has established a Contact Desk with the DIHK. Enterprises confronted with problems caused by Chinese product and trademark counterfeiting, can report their troubles and needs to this desk. Enterprises considering themselves to be a victim of product and trademark counterfeiting of Chinese origin may turn to the China Desk, in order to receive first hints for their following steps and to establish new contacts.

This is the first contact desk that invites enterprises from all sectors equally to report their experience. It has shown so far that problems are less sector specific than assumed until now.

Besides that APM organises practice-oriented events like tutorials on different subjects related to combating product and trademark counterfeiting are also part of APM's public relations work. Guidelines on "How to protect your SME against IPR abuse in China" are presently under preparation

Main success factors of this initiative were the close communication with the members, which provides for a fast and up to date information exchange between member companies on any questions of legal proceedings against product and trademark counterfeiting at home and abroad.

The DIHK has a record to close contacts with four Chinese-German chambers in Hongkong, Beijing, Shanghai, and Guangdong as well as with the European Chamber.

Main challenges for the initiative have been encountered in the fields of resource allocation, cooperation of SME and data protection. As far as allocation of resources is concerned, a better concentration would have been necessary as well as building upon already existing results that have been achieved by other actors. The main problem encountered in the cooperation with SME is that those tend to only see the cost side and that short term sales activities are often considered to be more important than IPR protection. SME tend to be interested in a follow-up only if a certain amount of goods can be confiscated. Another challenge was to define a regulation for data protection, which turned out to be a very time consuming procedure.

As a general tendency it turned out that only few SME protect their IPR before going to China, as they do not take sufficient time to prepare their entry into the Chinese market. SME are hesitating to report on concrete cases as they are under pressure as the Chinese side threatens that their turnover will decrease and they feel that they have to have good proofs before going public, otherwise their reputation on the Chinese market might suffer.

The present major focus of the initiative is to widen its network in order to reach as many companies as possible. For the moment they have the impression that the initiative is not sufficiently known to a larger public. They still have to develop a more tailor-made service for SME. Furthermore, they would need to invest more in PR activities concerning the initiative and in a more diversified way in order to reach a larger public.

Innovations to combat piracy (Germany)

Through the funding initiative "Innovations to combat piracy" (Innovationen gegen Produktpiraterie), the BMBF (Federal Ministry for Research and technology) promotes cooperative research projects between companies and research institutes. These projects seek to develop innovative solutions for protecting against piracy. The initiative focuses on producers of capital goods and aims – through publicly funded research projects – at enabling them to develop effective concepts for protecting against piracy, for example through approaches that integrate aspects of design, production and information technology within their highly complex machines and

processing plants which are in demand worldwide.

Main objectives are to attain clear technological leadership in the field of "product-integrated copy protection", to contribute to an effective protection of enterprises against piracy through such product-integrated copy protection and to develop protection concepts against piracy. The announcement of the initiative forms part of the Federal Government's High-Tech-Strategy.

Main priority fields of research to be promoted are:

- Designing and shaping of products and engineering processes in a way that makes it difficult to copy

Future products have to be designed in a way that makes reproduction difficult for potential product pirates. Technological options are for example the integration of several functions or components into one module that cannot be taken apart without destroying it, or the design of their interconnection. A bundling of products with services makes it more difficult to copy such service bundles. Furthermore development, production and sales distribution have to be organised in such a way, that neither product knowledge nor process knowledge is made accessible.

- Marking of products and product systems for supervision and pursuit

Procedures for an economic and piracy-safe marking of products and components as originals or even unique products will be further developed. Recognition and information systems have to be combined, in order to provide information for preparatory measures and enforcement. Testing the effectiveness of product supervision and tracing will be provided for through technical client services or through other networks like fairs, customs etc.

- Development of protection concepts against piracy

Instead of only applying single protection measures, options mixing technical, organisational and legal types of measures will be investigated. Strategies, guidelines, analytical instruments, methods and technologies are to be developed for this purpose; and adapted for different types of products and business sectors.

Enterprises producing in Germany, especially SMEs, universities, higher technical institutes or non-university research institutes can apply, under the condition that several independent partners from the economy and the research sector are cooperating in joint research projects (Verbundprojekte), which are clearly going beyond existing technologies. Projects should initiate sustainable innovation processes and have duration of less than 3 years. Identified solutions should be tested in an industrial pilot production phase. They should be appropriate for generalisation and be applicable without further research. Economic efficiency of the proposed solutions has to be assessed. Multidisciplinary approaches and holistic solutions integrating different disciplines are expected.

Partners of joint projects have to define their cooperation under the form of a cooperation agreement. Implementing agency of the initiative is the Research Centre Karlsruhe GmbH, section for Production and Engineering Technologies.

In addition to the promotion of research projects, the initiative is supposed to

support a general innovation platform “Innovations to combat piracy”. All partners are therefore expected to actively support an intensive exchange of experiences.

The application procedure involves two steps. First, applicants of each consortium have to submit a sketch of their joint project that should contain: the subject of the joint research project, number of partners and their coordinates, a presentation of the background situation and specific needs of the enterprise(s), targets defined on the basis of existing technologies and already available results from other research projects, research plan, cost estimation, time planning and resources, partners and division of labour as well as the possibilities for wider application of research results, especially for SME, but also for the economy in general and for professional and university training purposes.

Sketches are pre-selected by the Research Centre in Karlsruhe and scored by five independent experts (partly researchers, partly representatives of the German industry). Rating criteria are: responsiveness to future needs, economic relevance, system approach and potential for wider application.

Pre-selected applicants are requested to present (step 2) within two month a formal application including a detailed project framework.

The initiative is still at a very initial stage & effective projects have not yet started. Initiatives will be initiated by the end of the year 2007. However, in the meantime a web-site has been established providing general information to potential applicants, projects have been selected (a first batch of projects proposals was received in November 2006) and successful candidates are presently writing their formal application.

Fully Automated Logical System Against Forgery & Fraud – FALSTAFF (Italy)

Customs authorities have the responsibility to respond to any possible infringement or abuse of legitimate free trade rules, taking into account at the same time the ever-pressing need for a smooth trade flow. Their main goal is to protect legitimate free trade without impeding it.

FALSTAFF (Fully Automated Logical System Against Forgery & Fraud) is a web gateway (portal) dedicated to the fight against counterfeiting. This system enables trade associations and enterprises to support customs providing them with up to date information about the original characteristics of products. At the same time, it allows customs officers to gain access to a large database of information on product characteristics that permits fast and reliable identification of counterfeit products.

Companies wishing to protect an intellectual property right may request an action to protect a product by FALSTAFF via the Internet or an electronic filing system (EDI). Thanks to FALSTAFF, trade associations and companies can provide customs officers and consumers with information concerning counterfeit goods and goods not compliant with quality and safety standards. Rightholders can upload into FALSTAFF information about products that may be combined with photos, leaflets, manuals and any other elements useful for an easier and timely identification of the authentic product. Should any doubts arise on the authenticity of a product, the customs official may query FALSTAFF and make a comparison between the suspected counterfeit products and the authentic products to detect any technical

differences between them. Rightholders can also add into FALSTAFF secondary information such as the identity of the importer, exporter or holder of the goods, place of production, routes followed, transportation and packaging modes, scheduled arrival and departure dates, value of the products, the routes followed by traffickers and the country or countries of production of the suspect products. Thanks to FALSTAFF, it is possible to intercept immediately the goods for physical control and alert rightholders.

FALSTAFF enables trade associations to create interactive and multimedia web pages to support more efficiently and effectively the customs officer while carrying out his control activity using a specific knowledge base and linking it to a gateway with other websites of trade associations, enterprises and other bodies and entities for a direct and automatic self feeding of this site. The user may create an “electronic handbook”, providing guidance on how to establish the authenticity of the product and/or its compliance with quality and security standards, to the customs officers performing the control of the goods.

FALSTAFF has been implemented into the Italian Customs Information System (AIDA). The project involves the automation of over 400 Customs offices throughout Italy, involving 9,000 internal users and 15,000 external users. Italy is the only country that has integrated FALSTAFF information in national customs control circuit for the automated selection of the goods. So far, this initiative has brought 20% increase in productivity in back-office processes and has increased customs control effectiveness.

The project is a tangible example of collaboration and co-operation between Customs authorities, trade associations and companies. This e-partnership is the key factor for the success of the project. The implementation of the project is based on the involvement of all the concerned actors (trade associations, enterprises, consumers, national administrations, international bodies).

The main characteristics of the project are the integration with the customs control circuit, the development of knowledge base to assist internal and external users and the use of an e-learning platform.

The implementation of FALSTAFF required the re-organisation of processes within customs and staff training in back and front offices tasks. These changes are in line with the priorities set out in the 2005 E-Government National plan. During the implementation phase the Italian Customs Administration focused on two aspects:

1. Achieve greater efficiency and effectiveness in the fight against counterfeiting re-engineering of internal processes (both in terms of manpower effort and the time required to implement and update the information system)
2. Develop new ways of interaction between citizens, enterprises and the Administration

Customs re-deployed staff and resources in order to provide help and technical assistance to external users during the initial stages of the project and in reorganising the internal processes.

The re-engineering process implemented by the Italian Customs can be considered a reference point for all European Customs administrations. The reorganisation design was implemented to integrate and optimize work processes, which not only involve national business operators but also international companies. The difficulties

encountered during the implementation of the project were mainly linked to the changeover from Customs documentations in a paper format to an electronic one.

The main “learning points” of the FALSTAFF initiative are:

1. Great involvement of business operators when defining the functionalities of the system in order to minimize alarm at the changeover stage;
2. Great attention in defining the specific technology of the project (security and network infrastructure performance);
3. Great attention in training staff by harnessing on e-learning and knowledge based tools in order to re-address their professional skills in a timely and comprehensive way.

Another point of utmost importance involved carrying out testing phases with trade associations. Their collaboration played a key role in highlighting difficulties during the piloting phase and in identifying solutions to such problems (usability and accessibility, implementation of training courses and training on the job) were already available at the initial stage of the project's extension.

FALSTAFF has become a very effective and fast tool for Customs Officers to act in their daily border control activities. Italian trade associations are gradually starting to use FALSTAFF and hope that all the EU Customs will implement this system at European level.

Pacchetto Competitività (Italy)

Confindustria the Italian leading industry association is currently preparing a package of specific measures that has the purpose to support companies, particularly SMEs, in protecting, managing and, above all, enhancing the value of the results of R&D activities.

The “Pacchetto Competitività” aims at encouraging the diffusion of the culture of the protection of IPR, through the creation of a modern and effective system of IPR asset management capable of assuring all stakeholders a fair exploitation of their own rights.

Confindustria developed this initiative responding to the necessity to raise awareness of entrepreneurs, especially those in the small business sector, on the necessity to protect IP in order to protect their products from counterfeiting. The Pacchetto Competitività aims to increase awareness in government institutions and in companies about the relevance of intellectual property in sustaining competitiveness. It puts great emphasis on the important role that patents play in protecting IPR and in reforming the way companies handle their knowledge base.

Confindustria found that in the case of Italy where a relevant part of exports are products from traditional industries (textiles, ceramics, shoes, etc.) businesses are particularly exposed to international competition.

Confindustria found that the majority of innovations developed in traditional sectors are process innovations, generally not patented. Italian companies generate many process innovations and implement them into new machinery (Machinery is a leading sector in terms of export in Italy). However, when companies sell new

machinery they hardly charge customers for process innovations embedded in the machinery, which in most cases are not patented.

Entrepreneurs, especially those in the SMEs sector, need understanding that patents are useful in confronting knowledge bases across competitors and in adding value to the company itself. Confindustria promotes the idea that patents, for their own nature, induce the culture of competition through differentiation.

The Pacchetto Competitività stems from this need to increase protection of enterprise knowledge and focuses on four main areas of action:

1. Improve IP management practices and support to businesses in the Italian Patent Office (UIBM)
2. Promote incentives for business wishing to patent products and processes
3. Promote collaboration between research institutions and companies
4. Promote the creation of consortia between groups of SMEs for protecting IP and applying for patents

Thanks to this initiative, Confindustria is wishing to promote the relevance of knowledge embodied in process innovation and the need to protect this knowledge from international competition. A great part of innovations in traditional industries is embedded in production processes. The knowledge accumulated in these processes need to be preserved from competition.

The Pacchetto Competitività puts great emphasis on the necessity to create a favourable environment for SMEs consortia and for the introduction of an IPR policy for consortia that could foster patenting of new processes. SMEs in the same industry are encouraged to form a consortium (as a legal entity) to carry out common R&D and/or jointly use their IPR (patents and know-how). The Pacchetto Competitività promotes the idea that the consortium should be the owner of R&D results and should handle them in terms of IPR. Each member of the consortium should be licensed to freely use such R&D results. With consortia it could also be easier to arrange agreements granting the sale of machinery used in production processes only to those companies in a consortium.

The Pacchetto Competitività also promotes the necessity to introduce new methodologies in patent applications. Confindustria encourages the adoption of new procedures in patent filing which should include prior art search. The patent office should investigate on behalf of the potential applicant research the degree of novelty of innovations. Confindustria also invites government bodies to harmonize legal enforcement.

The activities of the Pacchetto Competitività are promoted to all stakeholders: companies, Government and associations. Confindustria is holding seminars addressed to small entrepreneurs and events involving other industrial associations.

Confindustria is committed to implement the activities of the Pacchetto Competitività but is realising that the results of such an initiative could be enhanced if it were conducted at EU scale. Only the adoption of an international perspective could tangibly improve effectiveness of initiatives targeting protection of IPR.

Insurance covering court costs for counterfeiting of IPR (Sweden)

The initiative to create an insurance covering court cost for counterfeiting of IPR comes from Swedish Inventors' Association (Svenska Uppfinnareföreningen, SUF). The reason behind the initiative is that there is a need of this kind of insurance as

many of the association's members had had their patented products/ideas stolen. A similar insurance existed already in the 1990s, however, this disappeared as it was too costly for the insurance company (Skandia Bank) due to too low insurance premium. The present insurance has been developed in cooperation with Lloyds and its Swedish counterpart, Factor.

The insurance will cover court cost, which could appear in connections with disputes concerning counterfeiting of IPR. The insurance is limited to patents, brands and design-cover in the EU and the EEA countries and it is only companies with up to 5 employees which can take out this insurance. The insurance premium is dependent on the monetarily value as well as geographical coverage of the IPR. The coverage of court cost could range from 1 to 2 millions SEK (1060,00-213,000 EUR). The insurance was launched in May 2007. The reasons behind launching this insurance are that the members of the Swedish Inventors' Association have expressed a need to protect their inventions and that they are not able to pursue court processes on their own due to high costs.

The process of developing the present insurance has taken approximately one and a half year. From the perspective of the Swedish Inventors' Association, it has been important to engage the Ministry of Industry in the process and to obtain its support for the initiative. In order to avoid the problems that appeared with the previous attempt to create insurance for IPR, the aim has been to create a reference group which could advice on the design of the insurance. The Swedish Inventors' Association wants the Ministry of Industry to support the initiative to put together this group. The association has also applied for money from the ministry to cover marketing costs and to create some guaranties for the insurance, in terms of putting aside money which could be used in case not enough members will sign up for the insurance. So far, the ministry has expressed an informal support of the insurance; however, the ministry wants await a development of a European patent before it is willing to support financially the Swedish Inventors' Association's initiative.

The main challenge in the development of the insurance is to make as many as possible of the Swedish Inventors' Associations' members to take out the insurance. Apart from marketing the insurance to its members, the insurance will also be marketed at universities/university colleges, as well as incubators (where many smaller firms are established). The Swedish Inventors' Association will also collaborate with the Swedish Governmental Agency for Innovation (VINNOVA), the Swedish Agency for Regional Economic Development (Nutek) and the Swedish Patent and Registration Office (PRV) in order to reach out to further companies. This way the hope is to make the insurance profitable for the insurance company (Factor) and thereby guaranty its future.

The main lessons learnt are that the implementation phase takes longer time than expected and that the development of this type of measure requires some risk-taking on the part of those promoting it. The Swedish Inventors' Association had appreciated if the Ministry of Industry had chosen to support the initiative more in concrete terms (i.e. through financial support). It is also important to develop a 'balanced' insurance which is based on reasonable premium, but still manage to cover the costs that will appear in those cases when the companies need to use the insurance.

Interview report from interviews with SMEs

The information presented below are based on telephone interviews conducted during the months May-June. The selection of companies for interviews was made on the basis of information collected through the two surveys carried out in the framework of this study. The target group was the SMEs with experience in the fight against counterfeiting and other IPR abuses. Specifically, the interviews with SMEs managers were based on a list of key questions, which were designed to collect more detailed information, such as SMEs experiences related to IPR abuse, most important effects of IPR abuse on their business, types of IPR protection that are considered to be most useful, the difficulties in implementing IPR, types of enforcement that are considered to be most useful, the difficulties in taking enforcement actions, as well as the SMEs general lessons learned against the cases of counterfeiting and IPR abuse

While several interviewees requested that the information provided should be treated in an anonymous way, it is important to note that all respondent companies represented the SMEs sector. In total, twelve interviews concerned companies from the two sectors, notably mechanical engineering and toys industries, while other sectors i.e. textiles and auto parts were less represented. In addition, the geographical coverage includes the following countries: France, Germany, Italy, Slovenia and the United Kingdom.

Main outcomes of the interviews can be summarised as follows:

The majority of IPR abuses are reported from China, some cases from Turkey, US and Korea have also been encountered. However, in Europe there seems to be an increasing tendency of IPR abuses. Some SMEs report IPR abuses to be almost equally important in China and in Europe, however the importance of Chinese competitors is growing, whereas the importance of European competitors decreasing.

Besides important **economic effects on SMEs** such as loss of market share, loss of turnover, pressure to decrease prices of their products and decreasing gross benefit margins, SMEs report that they have to face considerable costs for protection of IPR and enforcement.

Most respondents consider that besides patents, trademarks and licences, European standards as well as US and Australian certificates are **most useful means of IPR protection**. Quite a few respondents claimed that all products should be certified by an international court. High customer fidelity seems to be an important issue: keeping a close contact to the customers, so that the customers have sufficient know-how to appreciate and recognise the original product is considered to be important as well. However, this is not always possible, especially when going to new market places, where the copies and imitations arrive simultaneously with the originals (e.g. in former CIS and Eastern European Countries). Some SMEs mention licences as a useful means of protection, as they provide financial resources necessary to cover expenses related to legal costs in case of IPR abuse.

The prevailing opinion among surveyed SMEs was that customers often lack knowledge on safety issues/quality, so that they tend to buy the cheaper but unsafe or low quality copy.

Most respondents complain that their national **governments do not allocate enough resources in trading standards**, e.g. UK laws are reported to make it very easy to

copy; pirates only have to slightly change the design. Distributors can make more revenues by breaking the law (selling cheaper copies) as there are no national or European safety standards in place. **When selling overseas, SME must rely on intermediaries** due to the geographical and cultural distance. It is therefore most important to **built up good relationships with foreign authorities** (*guanxi* in China), once the SME are familiar with authorities and have managed to built up a good relationship, it is a lot easier for them to defend their rights. In China the AIC (Administration for Industry and Commerce), a state organisation and arbitration before court, is dealing with complaints from the industry, (decide whether or not there is an IPR abuse in a specific case, warning off, fines, seizing of goods). Their procedures are reported to be is easier, faster and cheaper compared to a court procedure, however they are not always successful. Some SMEs also reported to rely on Chinese lawyers, who are specialised in IPR issues.

Most respondents claim that they would need **better assistance in order to be able to efficiently implement enforcement measures**. A majority of the interviewees do not seem to know what the best method is to defend themselves, as one cannot really rely on justice and customs departments, (*"customs refer you back to justice and the other way round"*). Several SME also complain that that there was no organisation providing sufficient assistance to them on these issues, neither at European nor at national level. It is reported that Chambers of Commerce only provide law texts, but no further assistance.

Insufficient safety standards and controls seem to be the major constraint when trying to implement enforcement measures. EN 71 norms are reported not to be efficient enough, as producers of counterfeits can also obtain safety labels. One interviewee stated that *"the principle should be to prove compliance/innocence rather than to prove guilt"*. Importers should be obliged to present a certain number of documents.

Several SMEs report that **National governments are not playing a very active role**. (*"Customs should refuse goods that do not fulfil the safety standards"*). Customs are considered to be understaffed and not efficient (One interview partner reported that *"Only 2-3% of goods are controlled and even when there is a control, it would not be for the whole container"*). According to one interviewee *"enforcement authorities just do not care, even if you provide them with the bill of loading"*.

Pirates pass via different **trading companies, who refuse to take responsibility**. Moreover the custom alert becomes difficult, as there are often several trading companies involved. Most distribution companies do not want to be involved into the problem, only some of the bigger retail chains pay attention to EN certification and security labels.

SME cannot afford **high expenses for enforcement procedures**. International lawyers are expensive and have very low success rate. Furthermore there are **high formal barriers** to overcome in China (Some interviewees report that *"every document has to be attested by a notary"*, and that it is *"difficult to provide evidences, as those who eventually provide them are afraid that their reputation will suffer"*) The situation becomes even more difficult when state enterprises are concerned.

For any enforcement the SME will first have to create a solid base: If they loose a case in court, their image suffers considerably; especially in China, they feel that they have to be successful at the first trial. In China the costs of going to court are still higher than the benefits. They must be considered as a long-term investment. Fines

are not high enough to scare potential IPR abusers, but at least the enforcement procedure can stop the copying of the product lines.

Main lessons learned:

1. Pirates catch up far more quickly than cash-flow

Until recently most SMEs ignored how important the risk of IPR abuse really is. Their philosophy was: *“Technical competitions are limited in time.”* They felt safe when producing high tech in Europe and considered that they could make most of their profit with a new design in Europe before the pirates would catch up. This turned out to be a wrong assumption in many cases. SME have realised that the pirates catch up much faster than expected.

2. Register your rights, otherwise you will have no rights

The German Chamber for Industry and Commerce (DIHK) has published a study in which 1000 companies participated, only less than 5% had registered rights in China. However, awareness is growing. Several interviewees feel the need to register patents and utility models already in the design phase of a new production line. (*“No more use to concentrate efforts on home countries of production or in countries where you already had strong competitors”*). Even though IPR are not always efficient yet in China, they are at least deterrent to a certain extent, as they are causing expenses for the IPR abuser.

3. Cover your IPR with patents in all countries where you estimate to have your future markets

Foresight of long-term market development and strategies is increasingly important. It is important to register patents and trade marks in China, US, India, Korea, or even worldwide.

4. If national authorities would cooperate, IPR abuse could be reduced considerably

Most SME claimed that certificates should be controlled at every EU port, standards to be tested. But in practice they do not even ask for an invoice. One interviewee proposed to adapt the American style where customs are on the side of licence owners.

5. Networking and a good preparation are important when producing abroad

When producing in China it is important to be well prepared, to establish good relations with important administration units and to find a reliable partner. Good personal contact with distributors is highly important, especially when it is impossible to check the market directly. SMEs can influence their distributors as ports to stop goods from getting into the country.

6. Product image is very important

Better inform customers and thus gain their support in IPR protection, as they are aware of differences in quality and safety between the original and the fake product.

7. Go for products that are more difficult to copy

Given the increased sophistication of counterfeits, use designs and technologies in a way that would make your products more difficult to copy.

Taking into account that the results of the above-mentioned interviews were inconclusive, the study team prepared eight case studies to show more accurate picture on SMEs experience in dealing with counterfeiting and other IPR abuses. These case studies are presented below.

SME Case Studies

Case Study 1: Counterfeiting of Mechanical Products

Background

The subject of this case study, known here as 'EngCo', is a substantial UK-based engineering company and a world leader in various types of mechanical product which are components within major capital equipments. The products are supplied internationally to customers in the power and refinery industries for use in high-integrity applications. They undergo rigorous testing and certification since any failure in service would have major safety implications. The dangers posed by counterfeits are obvious.

Several years ago it became clear that a Chinese company had adopted a trade name similar to that of EngCo, sharing several of the original product range's Chinese characters. It was attempting to make use of EngCo's reputation to market a product that was similar in shape, colour, markings and intended function. Bogus certification marks were even applied to the counterfeit product.

Strategy and Actions

EngCo responded with a series of escalating responses including arranging raids of the counterfeiters' sales outlets with the involvement of the Administration of Industry and Commerce (AIC) in cities where these infringements were taking place. At one stage EngCo considered making an offer to buy out the infringer, but it settled on a three-pronged response:

- pursue the infringer through the Chinese civil court system;
- lobby relevant UK and Chinese national authorities; and
- establish local manufacture to lessen the cost advantage of the counterfeiters.

Forms of Abuse

The IP rights involved were patents, including design rights (grouped with patents under Chinese law), copyright and trade marks. EngCo has experienced problems in all these categories resulting from:

- opportunistic tactics by the counterfeiters, including vexatious and last-minute design 'registrations', failure to attend court and various other relentless attempts to 'play the system';
- the ineffectiveness of the AICs in the face of questionable tactics by the counterfeiters over trade marks — in theory the natural province of the AICs —

as well as the current four-year waiting list, in some areas of China, for bogus trade marks to be struck out; and

- concerns over the quality, training and integrity of some lawyers and even judges.

EngCo has also found that there are inequalities for plaintiffs in the Chinese legal environment. For example, although foreign law firms are not allowed to practice in China the English-language standards of local lawyers are often poor, requiring the expenditure of much greater costs and time compared with the outlay for the counterfeiters in defending their position. Patent rights in particular have proved difficult to enforce, with extensive hearings over design rights which have led to lengthy arguments in court involving experts — adding to costs, time and frustration.

Despite these difficulties EngCo remains committed to China and has won a significant share of the market compared with the counterfeiters. The safety-critical nature of its products no doubt plays a part in this, especially when EngCo is bidding for major contracts involving large, reputable Chinese customers.

Lessons Learnt

Above all, EngCo has learned how to compete in China — even in an environment where it continues to suffer sustained and partially successful attempts to infringe its IP rights and sell competing counterfeit products. In purely commercial terms, EngCo's own factory in China makes a key contribution to levelling the playing field through the familiar advantages of being close to the market and reducing the cost of the company's products.

Other principal lessons for EngCo include:

- ensure all relevant rights are properly registered for China, or there can be no redress (even for copyrights, which do not require registration, it is necessary to be able to prove you possess the rights);
- be vigilant in the defence of your rights and aware that the IP authorities may not be adequate;
- never give up, be tenacious and lobby where necessary.

Case Study 2: Distribution of Counterfeit Brake Fluid

Background

This case study is based on a British manufacturer and distributor of automotive products. One of these is brake fluid for various types of vehicle, which the company (referred to here as 'AutoCo' to protect its identity) sells worldwide through regional and local distribution networks.

Several years ago AutoCo became aware of counterfeit brake fluid being distributed in its Middle East markets. The packaging — distinctively-painted metal cans and overpackaging — is of an apparently good quality and is highly plausible in terms of

its attention to detail. This demonstrates the infringer's ability to keep abreast of changes and the anti-counterfeiting measures introduced by AutoCo.

The product itself is of a very low quality, consisting of fluids with a high water content and even caustic solutions. These pose extreme dangers to users of this 'brake fluid' since even a low concentration of water in a vehicle braking system can lead to the formation of steam and a sudden lack of braking effort, while caustic chemicals corrode vital parts of the system such as seals, actuators and pipework.

It can be seen that this form of counterfeiting implies acute risks for the general public as well as for the direct purchasers. It is an example of a low-cost, daily-use product that can be passed off with comparative ease in third-world markets. It may even enter and compete in more sophisticated markets: AutoCo has noticed that counterfeits have now begun to appear outside the Middle East, in markets such as the CIS countries.

The effect on AutoCo's sales has been devastating, with an 80% loss of brake fluid sales and the wiping out of its position in some Middle East countries where the product was once the market leader. For the company as a whole, the impact of this IPR abuse has been a drop of 25% in group turnover.

Strategy and Actions

This is not (for the time being, at least) a 'good news story'. AutoCo has made exhaustive efforts to locate and dismantle the counterfeiting operation. It is not even clear where the manufacture takes place, although there are indications that it may be in China or India, while distribution (operated on a 'cash export' basis) is probably centred on one or more countries in the Middle East.

AutoCo attempts to keep ahead of the counterfeiters by introducing packaging innovations, one of which — the use of embossing on the can — has already been successfully copied by the infringers. AutoCo is now considering the use of holograms to distinguish genuine cans from fakes. However an inherent problem is the unsophisticated nature of the marketplace, with scant awareness by customers of how the original packaging should look, low expectations of the product itself and little knowledge of the safety ramifications.

Another method used by AutoCo is to 'starve' certain markets of genuine product in order to make the counterfeits more visible. But this is at best a retrospective action to be taken after counterfeits have appeared — and it does nothing for the company's sales figures.

Forms of Abuse

The form of abuse is trade mark infringement and 'passing-off'. Brake fluid is a generic product that is not generally patentable.

Lessons Learnt

This case shows how remote manufacture, probably in one or more countries where the rights holder is not active, can affect its well-developed markets in third countries.

AutoCo states that if it were 'starting again' it would:

- pay more attention to its distribution arrangements, with stronger terms and conditions in its agreements with distributors;
- implement more sophisticated, 'bottom up' tracking systems for AutoCo products in the marketplace in order to keep ahead of the counterfeiters.

Case Study 3: Experience of garment manufacturer

Background

A French company "A" has entered into a joint venture agreement with a Chinese company "B" in order to manufacture and export a seasonal garment collection to Europe.

To minimize costs, the design of each individual piece of clothes has not been protected in China. However the trade mark appearing on the collar label is registered.

"A" was providing their new patterns to "B", 3 to 4 months prior to the launch of their collection. "B" was then sub-contracting the manufacture of the garments to a factory that "A" was not aware of. The goods were then exported by "B" to "A" which was receiving the goods for distribution in their stores. "A" did not have any local representative to supervise and check production and quality.

After two or three collections were manufactured, the quality of the production started going down to the extent that "A" had to refuse entire shipments of goods. As the poor quality of the products was putting its business in jeopardy, "A" was forced to find an alternative way to manufacture the goods.

Finally, after exchanging correspondence and warning letters, "A" and "B" finally decided to terminate their contractual relationship.

In the meantime, "A" was informed by one of its local agent about products bearing identical or similar trade marks being sighted in shops located in South-East China.

Immediately, "A" thought that "B" might be involved in this business. Yet it did not have any evidence of it, since "B" was sub-contracting the manufacture of the goods to another factory that "A" did not know about.

Strategy and Actions

"A" decided to take action and hired a private investigator in order to try to locate the factory where these garments were produced. It proved quite easy to locate the counterfeiter since most stores selling the fake products were owned by the owner of the manufacturing plant.

An informant was placed inside the factory to monitor its activities. "A" rapidly found out that since they were not providing any new designs to "B", the identified factory was not producing identical garments anymore.

At the right time, administrative raids were conducted simultaneously by the AIC (Administration of Industry and Commerce) against the stores and the factory. Of course, only those goods bearing identical or similar trade marks were confiscated by the AIC.

The number of products found was not in excess of 1.000 due to the fact that without receiving designs from new collection anymore, only fewer clients were interested to buy fake products.

Forms of Abuse

Products found by “A” in these stores were of three types:

- identical designs bearing identical trade marks with label of excellent quality (probably the same used for the manufacture of genuine products);
- identical designs but with similar trade marks (one too far but one really close to “A”'s trade mark); and
- identical designs without any trade mark.

Lessons learnt

“A” has never been able to establish a link between “B” and the factory it discovered through investigation. Yet there is strong presumption that this factory was “B’s” sub-contractor.

“A” does not work anymore exclusively with one partner, and not exclusively in China.

Contracts have been modified in order to obtain prior to the signature all possible information on sub-contractors.

However, the designs are still not registered in China and in those countries where the goods are manufactured.

Case Study 4: Sales of Counterfeit Air and Oil Filters

Background

A French company (known here as ‘SoCa’ to protect its identity) manufactures and sells in Europe air and oil filters for cars and trucks.

These products are directly sold to car/trucks manufacturers and then assembled in the manufacturing plant. They are also available as spare parts in specialised stores.

SoCa has registered or applied for various trade marks in classes 7 and 11 in China: either as national Chinese trade marks or via the Madrid international registration system. All these trade marks are word/figurative i.e. they contain a word together with a logo. There are no simple word marks registered. SoCa also proceeded with the registration of the Chinese transliteration of its main trade mark together with the logo. While monitoring well-known Chinese B2B websites (in English), SoCa found out that a Chinese trader was proposing for export an identical copy of its air filter.

Strategy and Actions

The trader was contacted via Internet using a commercial pretext and he confirmed that the products were available.

A private investigator was hired in order to locate first the trader, then the factory that manufactures the counterfeit air filters. Once located, an administrative raid action was conducted by the TSB (Technical Supervision Bureau) against the underground factory (i.e. a factory which is not registered in the Chinese company registry).

However, during this raid action the owner of the factory presented to the TSB officials a trade mark application that he had filed a year before in class 7 (and which had not been published on the day the raids took place). This application is for the identical word mark that SoCa is using.

The existence of this application, even though totally illegal, was sufficient to put doubt into the minds of the officials as to the real ownership of the trade mark. The administration decided to drop the matter and refrain from seizing the products and the machinery.

Please note that SoCa subsequently opposed this trade mark. However it will take quite a long time before SoCa obtains a favourable final decision. Thus the counterfeiter can still capitalize on the existing situation to continue its illegal activity.

Forms of Abuse

The form of abuse is trade mark infringement.

Lessons learnt

It is extremely important to have a good trade mark filing strategy and apply as soon as possible (even before the launch of the products) for the trade mark which is going to be used.

The simpler the mark is, better the protection will be.

It is also extremely important before conducting a raid action to search through the Chinese trade mark registry in order to verify that there is no pending unpublished application.

It is also crucial to monitor with the help of an IP counsel the published application in order to oppose illicit filings.

Case Study 5: Stopping Distribution of Counterfeit Textile Products

Background

A French company (known here as 'LineM' to protect its identity) manufactures and sells textile products, more particularly household linen, worldwide.

The company creates two collections of 40 new designs every year and the duration of each collection is maximum two years.

In Europe protection is sought via the unregistered design Community system. For costs reasons, it is almost impossible for LineM to register their whole collections in other countries and more particularly in all Asian countries. Furthermore, due to the length of the procedure, by the time protection is granted, the collection will have expired.

In some countries, copyright protection is available without the necessity of registration.

Based on information received from one of its distributors in China, LineM found in a big department store an exact copy of one of their designs appearing on a bed sheet sold at a very low price. This product was of poor quality.

Strategy and Actions

Without any industrial design registration in China, LineM had to rely on protection provided by Chinese copyright law.

A preliminary opinion from a Chinese law firm was obtained in order to make sure that this remedy was available.

A cease and desist letter was sent to the department store requesting them to stop the sale of the infringing products as well as to pay compensation and publish a public apology in a local newspaper.

The chain store did not contest the right of LineM but asked to receive sufficient element such as copy of the original drawings of the design, name of the author, date of creation, assignment document between the author and LineM in order to give its final position. All these documents were in any event mandatory to file a court action.

This part took sometime as LineM was not ready to provide these documents on the spot and was obliged to dig out internally in its archive in order to fulfil the department store's request.

When documents had been gathered, infringing products had nearly disappeared from the chain stores and finally the dispute was settled amicably between the parties.

Forms of Abuse

The form of abuse is copyright infringement.

Lessons learnt

In China, it would have been possible to speed the matter up by registering copyright at the Chinese Copyright Office.

Indeed, the procedure is quick and inexpensive compared to design registration. It gives the owner of the copyright certificate a presumption that (i) copyright is vested in one particular work, that (ii) the copyright owner is the one mentioned on the certificate. With this document, evidence is made easier and the burden to show the contrary is shifted on the infringer.

If registration is not available, or has not been requested (although available) by the copyright owner, then it is very important to collect and keep all necessary documents (i.e. original of the final drawings dated and signed by the author, assignment document, if necessary, from the author to the entity which will commercially use the work). In doing so, if infringement occurs, all required documents will be available and ready to use.

Case Study 6: IPR abuses experienced by toy manufacturer

Background

This case study shows the experience of a UK-based company, specialised in the design and manufacturing of toys, arts and crafts. To protect its identity the company is known here as 'SagA'. It was founded more than 60 years ago and became a leading designer and producers of toys in the UK. China is the manufacturing base for most of company products, which does not come as surprise because China supplies at least 80% of the worlds toys. Although the company's main market is the UK, it is having sales successes in the US, Australia, Japan and Russia.

The impact of counterfeiting on company performance involved significant costs. Specially, the company suffered a loss of turnover, which had negative impact of the level of employment. For SagA, China is considered as the main source of counterfeiting.

Strategy and Actions

The company's strategy in tackling the problems of IP infringements is to secure licences and develop iconic products. Besides that, the company is producing for the US market, which helps because Chinese manufacturers take more time to discover and copy the products. In an effort to stop counterfeiting operations, the company takes legal actions as well as uses personal confrontation.

Forms of Abuse

The main form of intellectual property rights abuse are: patent and design infringements, although the company has been confronted with the problem of look alike products/parasitic copies, which is recognised as the biggest threat by most of toys manufacturers.

The company has been confronted with many difficulties in protecting and enforcing their IP rights. The major difficulty in protecting the intellectual property rights is

the fact that patent costs are about 12,000 £ for the UK, Germany, US and Hong Kong. It is quite clear that to be able to cover such costs the company needs to have solid and secure finances. The SagA representative said that copyrights made very little difference, because they were not respected and UK laws made it very easy to slightly change the design. It was also pointed out those different types of copies, especially not identical ones (i.e. knock-offs and look-a-likes) made enforcement of IP rights more difficult. Interestingly, when Hong Kong was still independent, it was much easier to find producers who copied their products, because they had patented all their products there. Now, in the opinion of the company representative it is much more difficult to identify the counterfeiters than in the past.

Generic product development happens less and less, mainly because those products can be copied quite easily in a short period of time. For that reason, the company had to look for licensed products, new designs and concepts. The major problem with licensing is that the best licenses go to the bigger companies who then get master toy licenses, making growth difficult for smaller companies.

Although one of the disadvantages of licences is that they put prices up, licences can also help in improving the company sales. Specially, putting brand names on company's products leverage its brand powers, precisely because customers perceive brands as a guarantee of high quality products.

Lessons Learnt

The three main lessons learnt from the experience in IP protection can be summarised as follows:

- Select your most important assets and protect them.
- Because you can easily reverse engineering of plastic products, the perspective of using wooden toys appear to be interesting.
- Licences are useful, as the companies you are paying the licence to, are helping to finance court.

The other principle lessons learnt by SagA include:

- Be cautious when investing in product development/R&D where IPR abuse originates.
- Retain critical design in home country.
- It would be very useful if importers were obliged to place the name and address of the manufacturer on their own label packaging.

Case Study 7: Counterfeiting of Mechanical Products

Background

This case study presents the experience of a German-based mechanical engineering company in enforcing its IP rights in China. To protect the confidentiality of the company, its real name was changed to 'DeEco'. The company is a world leader in equipment for foundation technology. The products in which the company specialises include drilling and grab machines. It has been active in China since 1991 and owns two Chinese production facilities. Despite the fact that the company owns quite some strong patents, it is confronted with the problems of counterfeiting.

In the past, it formed a joint venture with a Chinese company, which was subsequently changed to a wholly owned subsidiary of DeEco. Such business model gave access to the Chinese counterpart to the drawings and know-how of DeEco. The actual problem appeared after the break up of the joint venture. The Chinese partner modernised its equipment by copying at least partially the equipment of DeEco. The infringer not only managed to take over a substantial part of the market in China, but also started the sales of products infringing the IP rights of DeEco in Germany.

Strategy and Actions

DeEco responded by filling a lawsuit against the infringer and one of its customers for infringing the patents by producing, offering and selling equipment, which made use of patented ideas of DeEco. The investing judges sequestered by seal infringing components of machines found in the plant of the infringer. Despite the attempts of the infringer to appeal against the jurisdiction, the courts have overruled them.

Forms of Abuse

The IP rights involved were patents. Since the Chinese partner knew about one patent of DeEco, it designed a different implementation function of a machine, which did not infringe the patent. However, it did not know about the second patent. By copying the grab almost exactly, the Chinese partner also copied the patented components and so infringed the DeEco patent. DeEco has encountered problems resulting from:

- various attempts by the infringer to appeal against the jurisdiction in the courts of first and second instance with the view to delay the final decision.
- lack of executive power to ban an exhibitor or a machine from the exhibition by the Shanghai Intellectual Property Administration (if a patent lawsuit is ongoing patent infringers cannot be removed from the exhibition).

Now the process is at the stage of the evidence exchange period. Besides that, a technical authentication is supposed to be made. For that both parties are discussing the selection of an authentication institute. Until the case is not settled, the infringer is most likely to continue its illegal activities. Although the general manager of the company infringing the IP rights of DeEco had declared that the company would replace the device by a completely new designed device, the representatives of DeEco claim that the new design still infringes their patent.

Lessons Learnt

The main lessons learnt concerning the general problems with IPR in China can be summarised as follows:

- intellectual property is respected in China much less than in the Western Countries.
- the costs of the lawsuit are more likely to be higher than the potential compensation. Therefore, the main purpose of the lawsuit is to prohibit the competition to use the patent.
- it is believed that application periods (two days) and the necessity to deposit a bond make it even more difficult to react to patent infringements on a short-term event like an exhibition.
- a court decision in a patent case can take (until the final decision is reached in the second instance) up to about four years. Concerns are mainly because intellectual property is a perishable good (the half-live period of knowledge is often less than these four years).

The other principle lessons learnt by DeEco include:

- protect your IP rights, so in the event of counterfeiting you will have solid ground to bring the case to justice.
- file a lawsuit against the infringer as soon as possible, in order to deter the use of your IP rights, even if the costs of doing might be higher than the actual compensation.
- establish good working relations with administrative people handling your case.

Case Study 8: Counterfeiting of Auto Parts Products

Background

This case study shows the experience of a UK-based company, producing plastic components used in the automotive industry to increase pedestrian safety. In order to respect a confidentiality agreement with the interviewed company, its real name was changed to 'SuV'. The company has excellent track record of experience of working with leading vehicle manufacturers for whom it has developed a range of pedestrian friendly frontal protection systems.

As regards IP protection, the company owns international patents with respect to pedestrian safety systems. To reduce injuries even in low speed pedestrian collisions, SuV has patented new frontal protection system, which will improve the safety of vehicles. It has also other patents are pending e.g. on technology which will further enhance pedestrian safety in the unfortunate event of a vehicle coming into contact with a vulnerable road user by covering the rigid bonnet with a cushioned surface. The benefits of this new and innovative technology are obvious, because it reduces

vehicle damage whilst offering the maximum benefit to pedestrian safety. Concerning the direct effects of counterfeiting, the company has reported important loss of market.

Strategy and Actions

The adopted strategy is to protect the IP rights of the most important inventions, but according to SuV representative companies have to be selective and only protect their most strategically important assets. The technology patents are the best existing tool to use, although, the company is convinced that there is still little respect for the IP protection in the Far East countries.

One of the major difficulties in implementing IP strategies is that clients that have little knowledge on safety issues tend to buy cheaper but unsafe copies.

Forms of Abuse

The main form of intellectual property rights infringement is patent abuse. Besides that, the counterfeiters can easily make copies of shape without implementing the same functions as original product.

The major concern expresses with regards to the enforcement of IP rights was that the lawsuit can be costly and time-consuming business.

The company is committed to constantly innovate and ensure adequate IP protection, even if the company representative said that it was very time and resource consuming to go to court. For instance, some cases involving IPR abuse can take several years. In the forthcoming future, the greatest challenge will be to protect the EU market from products that do not fulfil the safety standards.

Lessons Learnt

The two main lessons learnt from the experience in IP protection can be summarised as follows:

- Protect your IP rights to be able to file a lawsuit against the counterfeiter.
- Influence the distributor as a port to stop goods from getting into the country.

The other principle lessons learnt by SuV include:

- Distributors can make more revenues by breaking the law (selling cheaper copies), as there are no National or European safety standards in place.
- Governments do not allocate enough resources in trading standards.
- National governments are not playing an active role. In particular, Customs Authorities should refuse goods that do not fulfil the safety standards.
- Safety standards and controls are insufficient. In this respect, the principle should be to prove compliance/innocence rather than to prove guilt.

Appendix G Inventory of initiatives

Austria

1. Risk Awareness Campaign "Stop Scroungers"
2. Anti Piracy Initiatives of the International Federation of the Phonographic Industry Austria (IFPI)
3. Innovation Protection Programme (IPP)
4. "Plagiata" exhibition
5. Platform against product piracy
6. Textile Trade Lobbying
7. Association Against Movie and Video Piracy
8. Patent and Innovation Helpdesk for Tyrolean SMEs
9. Technology and Patent Search Service

Belgium

10. ABAC-BAAN: Belgian association against counterfeiting
11. Patent Cell of the Scientific and technological research centre of the Belgian textile industry
12. Services delivery of the Excellence centre of the technology industry
13. Bill on the repression of counterfeiting and piracy of IPR
14. Round Tables on counterfeiting

Croatia

15. Several state bodies in cooperation with private sector are fighting counterfeiting as a part of their regular activities

Cyprus

16. The Cyprus International State Fair and the use of the Madrid System-International protection of Trade Marks

Czech Republic

17. Industrial Property Rights Helpdesk
18. Industrial Property Training Institute
19. Regional Patent Information Centres (=PATLIBs)
20. Enforcement of Intellectual Property Rights
21. Patent, Trademark and Design Searches
22. Cooperation with Universities and other relevant subjects
23. Support to the Enforcement of Intellectual Property Rights

Denmark

24. Private initiatives (Confederation of Danish Industries and Textile Industries)
25. Public initiatives (Planned cooperation between authorities in order to promote enforcement of the present counterfeit)

Estonia

26. Intellectual Property Newsletter
27. Industrial property training course series
28. ESTIRC technology transfer contracts
29. Help-desk and training of the Estonian Patent Library
30. The SPINNO Programme

Finland

31. Consumer information campaign against counterfeit products
32. Pirate factory
33. IPR University Centre
34. Beware the Pirate Exhibition

France

35. National Committee against Counterfeiting

36. Counterfeiting-no, thanks
37. Fiches giving advices on counterfeiting
38. Regional Fund of Industrial Property Diffusion
39. Pre-diagnosis Industrial Property
40. Leaflet "Intellectual property and fight against counterfeiting"

Germany

41. Inter-trade agreement with China on textile products
42. German Business Action Group against Product and Trademark Counterfeiting
43. Bill "Draft Act to Improve Enforcement of Intellectual Property Rights"
44. German Federation Against Copyright Theft
45. Innovations against piracy
46. Leaflet "Product and brand piracy concern each of us"
47. Information leaflet "How to combat piracy and counterfeiting at trade fairs?" as well as emergency legal services on trade fair locations

Greece

48. Information, awareness, familiarisation of the public, on issues of industrial property; and dissemination of technical information related to industrial property titles and creation of an Internet site
49. Systematic adoption and implementation of the European and international conventions and regulations on the protection of industrial property; and organisational settings for effective movement of the information related to IPRs from and towards the potential users

Ireland

50. IP legislation

Italy

51. FALSTAFF - Fully Automated Logical System Against Forgery & Fraud
52. Competitiveness Package
53. Inimitable Enterprise
54. Anti-Counterfeiting Desks
55. Plan of Institutional Communication and Anti-counterfeiting

Latvia

56. Strategy for the development of intellectual property and ensuring protection
57. Establishment of the Intellectual Property Board
58. Basic guidelines for the protection and enforcement of intellectual property rights (2007-2012)
59. Activities of the State police in the field of intellectual property protection
60. Activities of the Customs office in the field of intellectual property protection

Lithuania

61. Copyrights Protection and Prevention

Luxembourg

62. LIIP (LINKING INNOVATION AND INDUSTRIAL PROPERTY) National IP Assistance Platforms

Malta

63. Intellectual Property: Training Awareness and Enforcement

Netherlands

64. Activities of the Netherlands Patent Office
65. SNB-REACT: The Dutch Anti Counterfeiting Group
66. Seminar and brochure on assertion of IP for SMEs

Poland

67. Support to business support institutions and their networks, Sub-network Brand
68. Support programme for obtaining IPR protection abroad
69. Polish Association of Branded Goods Manufacturers
70. Transition Facility 2004
71. Review of cases involving the crimes against IPR protection
72. Activities of the Polish Patent Office

Portugal

73. Cooperation between INPI - Portuguese Industrial Property Office and national economic inspection authorities
74. Anti-Counterfeiting Unit
75. Anti-Counterfeiting Web Portal
76. Roving Seminar on Counterfeiting

Romania

77. Electranet

Slovakia

78. IPO SR activities for SMEs

Slovenia

79. Course on Intellectual Property Protection

Spain

80. Users Handbook/Manual "Industrial Property, Enterprise and the Market"
81. Thematic Workshops at "Emprende", supporting the launch of new businesses
82. Interministerial Commission to act against IPR abuses
83. Training for police, civil servants, judges and public prosecutors
84. Anti-counterfeiting email address "pirateria@oepm.es"

85. Agreement between ANDEMA (National Association for the Defence of Trademark Rights, member of the Global Anti-Counterfeiting Group) and CEC (Spanish Commerce Confederation)

Sweden

86. Conference on counterfeiting and SMEs
87. Conference on alternative dispute solutions.
88. Around-the-table discussion SACG/OECD and other agents
89. Negotiations between The Swedish Anti-Counterfeiting Group (SACG) and the Swedish Customs regarding counterfeiting
90. Insurance covering court costs for counterfeiting of IPR

Turkey

91. Information Days on Intellectual Property
92. International Networking on Counterfeiting
93. Intellectual Property Research Centre
94. IPR Promotion Campaign

United Kingdom

95. ACID (Anti Copying In Design)
96. Alliance Against IP Theft
97. Federation Against Software Theft (FAST)
98. UK National IP Crime Strategy

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