SUMMARY OF ISSUES RAISED AND VIEWS EXPRESSED

Prepared by the Secretariat

1. When discussing elements for inclusion in its draft report at its meeting of 3-4 June 1985, the Group asked the secretariat to prepare a paper setting out in one place the issues that have been the focus of discussion in the Group and the views expressed on them, as a help in the further work of the Group.

Introduction

2. At their thirty-eighth Session in November 1982, the CONTRACTING PARTIES, meeting at ministerial level, took the following decision (BISD, 295/19):

"The CONTRACTING PARTIES instruct the Council to examine the question of counterfeit goods with a view to determining the appropriateness of joint action in the GATT framework on the trade aspects of commercial counterfeiting and, if such joint action is found to be appropriate, the modalities for such action, having full regard to the competence of other international organizations. For the purposes of such examination, the CONTRACTING PARTIES request the Director-General to hold consultations with the Director General of WIPO in order to clarify the legal and institutional aspects involved."

3. The Director-General subsequently reported to the Council on his consultations and the Council took note of the report (C/W/418 and C/M/168 and 170).

4. At their fortieth Session in November 1984, the CONTRACTING PARTIES took the following action (L/5758):

"While supporting work in other fora, and in pursuance of the 1982 Ministerial Decision on Trade in Counterfeit Goods and taking into account the work already done, the CONTRACTING PARTIES:

(a) decide that the secretariat documentation consolidating available background information and other relevant documents submitted by interested contracting parties be examined by a group of trade policy experts and other experts, including those specializing in intellectual property rights, with a view to facilitating the decisions which the Council is called upon to take, including a further clarifying of the legal and institutional aspects involved. The Expert Group would be open to all contracting parties;
(b) agree to invite the Director General of WIPO to nominate an expert to participate in the discussions; and

(c) agree that the Expert Group mentioned in (a) would report to the Council as soon as feasible but not later than the next regular Session of the CONTRACTING PARTIES on the results achieved. The Council will consider the matter, having regard to the 1982 Ministerial Decision."

5. In addition to the secretariat documentation consolidating available background information (MDF/W/19), the Group has had before it a communication from the delegation of India (MDF/W/25) and information from the United States delegation (MDF/W/30).

6. In response to the invitation of the CONTRACTING PARTIES to nominate an expert to participate in the discussions, the Director General of the World Intellectual Property Organization (WIPO) indicated that he intended to refer the invitation to the competent WIPO Governing Bodies at their next session, which would be held from 23 September to 1 October 1985 (MDF/W, paragraph 5). In the meantime, in accordance with the proposal of the Director General of WIPO, a member of the staff of WIPO attended the Group's meetings and followed its discussions without taking an active rôle.

7. Some members feel that, in the absence of the active participation of an expert from WIPO, it would be difficult for the Group to clarify fully the legal and institutional aspects involved. Some other members consider that the legal and institutional aspects relating to rôle of GATT can, nevertheless, be clarified within the time-frame provided for in the Group's mandate. The main points made by members on legal and institutional aspects are summarized below.

8. After hearing general statements, the Group initially took up in turn each of the eight points that had earlier been identified as needing examination in the secretariat document consolidating available background information. Details of the Group's discussions will be found in secretariat notes on its meetings. The following sections identify the main issues raised relating to the decisions that the Council is called upon to take (see paragraph 2 above) and the views expressed on them.

What is meant by trade in counterfeit goods?

9. The Group has noted that counterfeiting involves the infringement of intellectual property rights. While various types of intellectual property rights may be affected, the Group has agreed to direct its examination, at least initially, to questions relating to trade in goods unlawfully bearing representations of legally protected trademarks.

What is the nature of the "joint action" in question?

10. The Council has been asked to determine the appropriateness of joint action in the GATT framework. In this regard, the Group has noted that what is under consideration is possible joint action aimed at curbing the
trade disruptive and inhibiting effects of commercial counterfeiting, while safeguarding against obstacles to legitimate trade. There is general agreement that these are indeed desirable objectives, although there is no agreement as yet on whether joint action to pursue them should be taken in GATT. Some members believe that paragraph 28 of MDF/W/19 provides a good working definition of the problem being dealt with.

Is there a problem of trade in counterfeit goods?

11. There is a general recognition that a growing problem of trade in counterfeit goods exists. To some members, trade in counterfeit goods is a major and growing problem that is causing unacceptable and increasing harm to their consumers and producers as well as increasingly disruptive effects on international trade. Some members, while recognizing that trade in counterfeit goods is a growing problem which may warrant international action, say that to date their domestic industry and consumers have been relatively little affected. Some members have indicated a desire to have further information on the size and significance of the problem.

Is the present international law adequate to deal with problems of trade in counterfeit goods?

12. It has been noted that, if the present international law were adequate to ensure that international trade in counterfeit goods is effectively curbed without creating barriers to legitimate trade, additional joint action in the GATT framework would not be necessary. The Group has therefore examined from this perspective the present international law, in particular that contained in the GATT and in the Paris Convention for the Protection of Industrial Property, which is administered by WIPO.

13. The main points made to support the view that the present international law, while useful, is not in itself sufficient are as follows:

- The provisions of Article 9 of the Paris Convention on seizure on importation, prohibition of importation and seizure within the country constitute (as made clear at the Hague Revision Conference of the Paris Convention) a "mere invitation" to member States to adopt legislation accordingly, and do not create any obligation, not even a moral one, to do so. As indicated in the report on the consultations between the Director-General of GATT and the Director General of WIPO, there are countries which have not adopted laws to implement these provisions (C/W/418, Annex, paragraph 4).

- The remedies and sanctions are left to national law and therefore vary in effectiveness. They do not necessarily ensure that the economic incentives for trade in counterfeit goods are removed or that such goods, once detected, are removed from commercial channels.

- The Paris Convention is not structured in such a way as to provide for effective mechanisms of consultation, surveillance, and dispute settlement, that could be invoked if a member State
does not enact legislation to implement effectively a provision, for example Article 10ter. For the same reason, the Paris Convention does not provide for the necessary machinery for mutual administrative assistance.

The Paris Convention does not concern itself with the avoidance of obstacles to legitimate trade that may be caused by measures aimed at protecting intellectual property. The GATT contains provisions on this matter but these leave considerable latitude to contracting parties and need to be elaborated in order to ensure that they are effective.

The fact that trade in counterfeit goods is a large and growing problem and that there is considerable commercial and political pressure to do something about it indicates that the present international law has been overtaken by the development of the problem. It is not denied that countries can act consistently with the Paris Convention to deal adequately with the problem of trade in counterfeit goods; the point is made that, faced with the present scale of the problem, the Paris Convention is no longer a fully effective instrument in ensuring that they actually do so.

14. The main points made arguing that the present international law is adequate are as follows:

- Article 9 of the Paris Convention already provides for counterfeit goods to be seized on importation, prohibited from importation or seized within the country into which they are imported.

- While Article 9(6) indicates that the introduction of legislation to give effect to these measures is not mandatory, it makes clear that it is mandatory to apply to imports of counterfeit goods the actions and remedies available in such cases to nationals under national law. Such actions and remedies can, and often do, include such powerful sanctions as fines and imprisonment. Indeed, Article 10ter requires that the legal remedies to repress importation of counterfeit goods be effective.

- Of fundamental importance is the basic "assimilation" principle of the Paris Convention, which gives nationals of other member States the same legal protection of their industrial property rights as nationals of the member State in question and also the same legal remedies against infringement of their rights, provided that they observe the conditions and formalities imposed upon nationals.

- As regards avoidance of non-tariff barriers to legitimate trade, GATT Article XX(d) already specifies the conditions under which action normally inconsistent with the GATT can be taken to protect intellectual property rights. If these conditions are not respected by a GATT contracting party, another contracting party can invoke its rights using the well-established GATT procedures.
The fact that a problem of trade in counterfeit goods exists does not prove the inadequacy of the present international law: it may only be that the present national and international law needs to be more effectively enforced. If so, the matter should be raised in the appropriate framework, which is WIPO. Article 28 of the Paris Convention provides mechanisms for the enforcement of that Convention.

If the present international law is not adequate, does further multilateral action need to be taken or would purely national action be sufficient?

15. The arguments supporting the need for an improved multilateral framework within which national action would be taken are as follows:

- The problem is not limited to imports of counterfeit goods into national markets, but also relates to the unfair competition to genuine export products resulting from imports of counterfeit goods into third markets; countries thus have an interest in action against imports of counterfeit goods into their trading partners being effective.

- International action is necessary to safeguard against the possible misuse of measures against imports of counterfeit goods as barriers to legitimate trade. Since some governments are under considerable pressure, further unilateral action to combat imports of counterfeit goods will be taken in the absence of internationally agreed rules; there is a risk that such unilateral action could create difficulties for legitimate trade.

- To suppress effectively trade in counterfeit goods, internationally co-ordinated action is necessary; otherwise the problem might merely be diverted from one market to another. In addition, cooperation and exchange of information among the competent authorities of different countries would facilitate national action against trade in counterfeit goods.

- Actual experience shows that the action against imports of counterfeit goods possible under present national law is not effective in many countries: often customs has no rôle to play; injunctions are often difficult to obtain; discovery procedures to obtain information necessary to pursue trademark rights are often difficult; and penalties are frequently insufficient.

16. Another view is that:

- It could be expected that the necessary measures to combat trade in counterfeit goods would be taken nationally, since it is the responsibility of each national government to safeguard its citizens and industry against imports of counterfeit goods; some members have indicated that they consider the remedies available under their present national law adequate.

- Problems of unfair competition in third country markets can already be dealt with using Article 9 of the Paris Convention; if the provisions of Article 9 need to be more effectively
enforced, concerned countries should raise the matter in the WIPO.

- As regards the risk of obstacles to legitimate trade, it would, of course, be necessary, in adopting measures to combat trade in counterfeit goods, to take into account the existing obligations under the GATT.

- However, the main problem is not whether or not further multilateral action is required but whether an improved international framework for national action would more appropriately be sought in GATT or in WIPO.

If further multilateral action needs to be taken, is the GATT a competent body?

17. The following points arguing that GATT is not a competent body to deal with questions of trade in counterfeit goods have been put forward:

- The matter is essentially an intellectual property question for which WIPO is competent.

- The GATT cannot settle the question of what is counterfeit and what is not, which is a question that can only be settled in the domain of intellectual property law.

18. The arguments put forward supporting the view that GATT is competent to deal with questions of trade in counterfeit goods are as follows:

- The fundamental aim of work in GATT on this matter should be the promotion of international trade in legitimate goods, which is the basic objective of the GATT. To do this, trade in counterfeit goods should be curbed, while ensuring that this does not give rise to obstacles to legitimate trade.

- The aim of joint action in GATT would not be to modify substantive intellectual property law about what is counterfeit and what is not; the aim would be to ensure effective procedures for the enforcement of such law against imported goods, while safeguarding against barriers to legitimate trade. GATT is a competent body for dealing with such questions concerning the treatment of imported goods.

- The General Agreement already contains a number of provisions relating both to action to protect intellectual property and to ensuring that such action does not give rise to obstacles to legitimate trade.

- This is not an area where any organization can claim an exclusive competence. The WIPO has primary responsibility for dealing with issues related to the establishment of minimum international law applicable to the protection of industrial property and the CCC has competence where the intervention of customs officials is involved, but GATT clearly has competence for trade policy aspects, and in particular where action to combat counterfeiting entails restraints on international trade.
Even if GATT is a body competent to deal with problems of trade in counterfeit goods, is it an appropriate one?

19. The arguments put forward supporting the view that GATT is not only a competent but also an appropriate body are as follows:

- Action on trade in counterfeit goods should be guided by concern for the expansion of legitimate international trade and for the avoidance of barriers to such trade. Since these are the main objectives of GATT, GATT is an appropriate body for undertaking such action, including to ensure that the policy of seizure on importation of counterfeit goods laid down in Article 9(1) of the Paris Convention is pursued by GATT contracting parties in ways consistent with these objectives and with the relevant GATT provisions.

- The main GATT provisions relating to the protection of intellectual property and ensuring that action to do so does not cause obstacles to legitimate trade need interpretation and elaboration if they are to be fully effective.

- GATT has a legal and institutional framework which makes it appropriate for dealing with problems of this nature, including machinery for notification, transparency, consultation and dispute settlement necessary to ensure the effective implementation of joint action, to deal with any difficulties that might arise and to provide a forum for useful exchange of information.

- For these reasons action in GATT can complement efforts at the national level and in other international fora.

20. The arguments put forward supporting the view that joint action in the GATT would not be appropriate at the present time are as follows:

- Articles 9, 10 and 10ter of the Paris Convention provide an existing basis for joint action; if they need to be elaborated, this should be done in the framework of the organization that administers the Paris Convention, namely WIPO.

- It has not been demonstrated that the problem is sufficiently grave to warrant taking up in the GATT at the moment when there are other issues of a more pressing nature and of more central concern to GATT that need to be pursued in GATT.

- If the basic objective of the proposed action is to protect intellectual property rights rather than to promote legitimate trade, this is a matter that would be best dealt with in WIPO.

If joint action in the GATT framework is appropriate, what should be the modalities for such action?

21. There is a general view that at this stage the Group should not attempt to reach agreement on possible modalities for joint action in the GATT framework. This would have to be done subsequently if the Council
were to determine that joint action in the GATT framework is appropriate. However, it is recognized that, in order to be in a position to take a decision on the question of appropriateness, it would be helpful for the Council to have before it some indications in broad terms of the types of joint action possible and the results of consideration of a number of issues in this connection that have been raised by certain members.

(a) What should be the basic purpose of any joint action?

22. Some members are of the view that rules of general application should be drawn up in the GATT framework which would (i) place obligations on governments to provide trademark owners with effective means to enforce their trademark rights while suspect imported goods are still under the control of customs, (ii) effectively remove the economic incentive for trade in counterfeit goods and (iii) ensure that action taken for these purposes does not give rise to problems for legitimate trade. Some members have asked whether trade in counterfeit goods might best be curbed and the danger of non-tariff barriers avoided if action were to focus on preventing the domestic production and sale of counterfeit goods. Some members have stated that such action would most appropriately be undertaken in WIPO.

(b) What should be the definition of counterfeit goods for the purposes of any joint action?

23. The Group has agreed (see paragraph 9 above) to direct its examination, at least initially, to questions relating to trade in goods unlawfully bearing representations of legally protected trademarks. However, if joint action in GATT were found appropriate, its scope would have to be more closely defined. One view is that the Group should adopt, as an initial basis, the working hypothesis that any such joint action would deal with goods bearing an unauthorized representation of a trademark that is legally registered in respect of such goods in the country of importation; this would cover only imported goods with trademarks identical or substantially identical to the legally protected mark and exclude "parallel" imports (see MDF/W/19, paragraph 19(i) plus footnote for details).

(c) What should the mechanisms of any joint action be?

24. As regards mechanisms, a number of possibilities for enabling the trademark owner to enforce his rights against counterfeit goods before they are cleared through customs have been outlined. All of these would require the trademark owner in some way to initiate the action by approaching the designated authority in the country of importation and would further require him, as a precondition for such action, to demonstrate the validity of the trademark rights he is seeking to protect. The possible mechanisms include:

- Giving customs the administrative authority, subject to appeal, to detain suspect goods, determine whether they are counterfeit and to decide on the disposal of the goods. If the importer challenges such a seizure of his goods, one variant would require the customs to seek a court ruling confirming their action while the other variant would put the onus on the importer to appeal against the action of the customs to the courts.
Giving customs the administrative authority to detain suspect goods for a limited period. During this period, the trademark owner would have to seek and obtain a court order confirming the seizure, in the absence of which the goods would be released.

Customs would only detain suspect goods on the basis of a court order, and appropriate legal possibilities for enabling such court orders to be obtained by the trademark owner prior to clearance of the goods would be provided for.

25. As regards which of these mechanisms should be provided for in any joint action, a number of possibilities have been mentioned. One is that, within a broad framework providing some degree of harmonization and uniformity of procedures, the mechanisms should be largely left to national law, provided they are effective. Another possibility would be to reach agreement on a specific mechanism to be applied by all countries. One view is that, provided administrative action is confined to imports involving unauthorized representations of an identical or substantially identical trademark on the same goods as the trademark is registered for, and does not enter into more complex fields of trademark infringement involving similar marks or goods, some degree of administrative authority may be justifiable, but the final action should always be a judicial responsibility. Another view is that action against counterfeit goods should normally be pursued through judicial channels and customs should normally only act on the basis of a court order: customs are not technically equipped to identify counterfeit goods; placing responsibilities on them to do so could lead to difficulties for legitimate trade; and administrative authorities sometimes tend to be responsive to political or economic pressures to delay or prevent proper action in response to a complaint. It has been noted that to some extent which mechanism or mechanisms are appropriate will depend on the type of trademark offence that the mechanisms are expected to deal with.

(d) Should such mechanisms be the same for goods at the border as for those in domestic circulation?

26. One view is that, while the substantive intellectual property law to be applied should be the same, it will usually be necessary to provide for some degree of administrative action by customs against the importation of counterfeit goods if action is to be effective before goods enter into domestic circulation, even though there may be no equivalent administrative action provided for against the domestic production and sale of such goods. Such differentiation is justifiable because, whereas the domestic production of counterfeit goods and their subsequent sale can generally be stopped at source, i.e. at the point of production, this is much more difficult in the case of a foreign producer, since he is not within the national jurisdiction and often difficult to detect anyway (these arguments are more fully described in MDF/W/19, paragraph 87). Another view is that, if action against the internal production and sale of counterfeit goods can only take place on the basis of a court order, this should also apply to imports.
(e) **Who should determine whether suspect imports infringe trademark rights and what should be the criteria for determining infringement?**

27. One view is that at least the final determination of infringement should always be made by the courts. Another view is that the possibility of customs making such determinations should not be excluded, provided they are subject to appeal to a judicial authority. It has been suggested that the criteria for determining infringement should be those provided for in national law, with, of course, the requirement that the same criteria be applied to goods on importation as for those in domestic circulation. A concern has been expressed that problems may arise because of differing criteria for determining infringement in different countries. It has been noted that consideration of these issues would depend on the type of trademark offence involved and the consequent complexity of the determinations required. It has been suggested that, if any joint action is limited to goods bearing without authorization identical or substantially identical trademarks to those legally registered for such goods in the country of importation, the determination of infringement is unlikely to be complex and the question of differing criteria in different countries is unlikely to arise.

(f) **How would "parallel" imports be treated?**

28. It has been said that "parallel" imports, by definition, are genuine goods; not being counterfeit, they would therefore not fall within the ambit of any joint action on counterfeit goods. In this regard, it has been pointed out that the definition of counterfeit goods suggested in earlier discussions specifically excluded imported goods which have been produced or marketed under a protected trademark by the owner of the trademark right, or with his consent, and goods bearing an authorized trademark which are imported in contravention of a commercial agreement (MDF/W/19, page 9, footnote). The question has also been raised as to whether the existence of "parallel" imports would make it more difficult for customs to identify counterfeit goods at the border, since there are then three categories of goods to distinguish between (genuine with authorization, genuine without authorization and counterfeit). A member, in whose country customs has experience in this, has indicated that this has not in practice proved a problem.

(g) **What should be the remedies and sanctions provided for against imports of counterfeit goods?**

29. One view regarding the remedies and sanctions that should be provided for against the importation of counterfeit goods, is that the aim should be to ensure that the economic incentive for trade in such goods is removed and that this would be best met by providing for forfeiture of the goods as the normal sanction. Moreover, such goods should be disposed of outside the channels of commerce to minimize any harm to the owner of the trademark right in question. Another view is that, even if procedures and remedies do not enable goods to be seized and forfeited before they enter into domestic circulation, the economic incentive can be subsequently removed through a suitable award of damages.
What is the danger of action to combat counterfeit goods giving rise to obstacles to legitimate trade? How can this best be safeguarded against?

30. Some members have stressed the danger that procedures and sanctions directed against imports of counterfeit goods could be applied to imports of legitimate goods. One view is that such dangers could best be safeguarded against by ensuring that action against imports of counterfeit goods only takes place on the basis of a court ruling and that the mechanisms for such action, as well as the substantive intellectual property law applied, are the same for goods on importation as for goods in domestic circulation. Another view is that, even if some degree of administrative authority and special mechanisms is involved in action against imports of counterfeit goods, the risk of giving rise to obstacles to legitimate trade can be avoided through suitable safeguards in regard to such matters as proof of ownership of the trademark, demonstration of likelihood of imports of counterfeits and provision of financial security by the trademark owner before suspect goods are detained; time-limits to the detention of goods by customs without a court ruling; provision for compensation to importers whose legitimate interests have been adversely affected; provision for appeal to a judicial body; and suitable multilateral mechanisms for transparency, consultation and dispute settlement in the event that difficulties arise.