MEETING OF 3-4 JUNE 1985

Draft Note by the Secretariat

Chairman: Ambassador P. Rantanen (Finland)

1. The Group held its fourth meeting on 3-4 June 1985.

Chairmanship

2. The Group elected Ambassador P. Rantanen (Finland) its Chairman.

Examination of documentation before the Group

3. The Group continued its examination of the documentation before it, as required by its mandate (L/5758). In addition to the documents before the Group at its previous meeting, i.e. the preliminary secretariat background note (MDF/W/19), the document received from the delegation of India (MDF/W/25), the document containing information from the United States' delegation (MDF/W/30) and the secretariat note on the Group's meeting of 11 March (MDF/8), the Group had before it a secretariat note on its meeting of 3 April (MDF/9) and a draft secretariat note on its meeting of 24 April (MDF/W/40 - subsequently circulated in final form as MDF/11). A number of experts made available an informal paper outlining their thinking at this stage on the appropriateness of joint action in the GATT; the text of this is annexed to this note. Some members of the Group said that they would need more time to examine this paper before they gave their considered reactions.
4. The Group initially focussed on the questions that had been the main subject of discussion at its previous meeting, namely:

(a) Is the present international law adequate to deal with problems of trade in counterfeit goods?
(b) If the present international law is not adequate, does further multilateral action need to be taken or would purely national action be sufficient?
(c) If further multilateral action needs to be taken, is the GATT a competent body?
(d) Even if GATT is a body competent to deal with problems of trade in counterfeit goods, is it an appropriate one?

The Group then took up a number of points relating to the modalities that any joint action might have.

5. The record of the discussion that follows summarizes those points made that are additional to or elaborate on those made at previous meetings of the Group. An attempt has been made, in document MDF/W/43, to present a complete summary of the points raised and views expressed on them to date (see paragraph 31 below).

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

6. Some members referred to the views presented in the informal paper annexed to this note. They emphasized that there was a major and growing problem of trade in counterfeit goods which they were under considerable pressure from commercial and political circles to do something about; this
indicated that the present international law was now not proving adequate to deal with the present scale of the problem.

7. Some members said that, as indicated in document MDF/W/25, they recognized that problems of counterfeiting did exist that were having trade disruptive and inhibiting effects; they were in favour of action to deal with such problems. They reiterated their view, as expressed at previous meetings of the Group, that the provisions of Articles 8, 10 and 10ter of the Paris Convention contained all elements essential for such action. Referring to the views expressed by some members as recorded in MDF/11, paragraph 11, first indent, they emphasized the binding nature of the Paris Convention as an international treaty and drew attention to its Article 25 which requires any member State to adopt, in accordance with its constitution, the measures necessary to ensure the application of the Convention and at the time it joins the Agreement to be in a position under its domestic law to give effect to its provisions.

8. In response, some members noted that the Director General of WIPO had indicated, as reported in document C/W/418 (Annex, paragraph 4), that there were some countries that had not adopted laws to implement Article 9(1) to (5) of the Paris Convention. They further drew attention to paragraph 44 of document MDF/W/19 which quoted the "Guide to the Application of the Paris Convention for the Protection of Industrial Property" written by Professor Bodenhausen who at that time was Director of the United International Bureau for the Protection of Intellectual Property (BIRPI), the body that subsequently became WIPO. They considered that this Guide represented the most authoritative interpretation of the provisions of Article 9 of the Paris Convention available. It made clear, inter alia, that it had been expressly understood at the Revision Conference of the
Hague on the Paris Convention that member States of the Paris Convention were under no obligation, not even a moral one, to adopt laws according to paragraphs (1)-(5) of Article 9. They further noted that the present Director General of WIPO is reported in document C/W/418 as having described Article 9(6) of the Paris Convention as "an exhortation" to countries to modify their legislation pursuant to paragraphs (1) to (5) of Article 9. They were of the view that there could be no sustainable argument that the introduction of legislation to provide for seizure on importation or prohibition of importation or seizure within the country was mandatory under Article 9 of the Paris Convention, in the absence of an interpretation by the International Court of Justice to that effect, since the Convention clearly allowed for other possibilities. They noted that, as indicated in the footnote to paragraph 54 of MDF/W/19, the provision of the Paris Convention providing for the possibility of bringing a matter to the attention of the International Court of Justice had not yet been invoked. If individual member States took the view that paragraphs (1)-(5) of Article 9 represented mandatory provisions that was welcome news, but the interpretation of those member States in such circumstances could not be binding on other member States. What was mandatory was the requirement under Article 9(6) to apply the remedies and actions available to nationals under national legislation, but if these remedies and actions proved inadequate, Article 9(6) contained no obligation to amend them.

9. Replying, some members said that the Guide written by Professor Bodenhausen represented no more than the interpretation of one man, even if he happened to be the Director of BIRPI at the time. It was for the member States of the Paris Convention to interpret Article 9 and, to their knowledge, no such interpretation had been made. In regard to Article 9, even if the measures referred to in paragraphs (1)-(5) were not
mandatory, the requirement in paragraph (6) that in cases of importation of counterfeit goods these measures be replaced by the actions and remedies available to nationals under national law clearly was mandatory. These members requested those members considering the present international law inadequate to indicate, using concrete examples, the difficulties with it. The fact that a problem of trade in counterfeit goods existed did not prove the inadequacy of present international law; it might only be that the present national and international law needed to be more effectively enforced. If so, the matter should be raised in the appropriate framework; which was WIPO. In this regard, they drew attention to the provisions of Article 28 of the Paris Convention which provided mechanisms for the international enforcement of the obligations in that Convention, either through negotiation or recourse to the International Court of Justice.

10. A member speaking for members from a group of countries said that, even though counterfeiting, especially unauthorized representation of trademarks, had not proved so far to be a considerable problem for these countries, he could accept that trade in counterfeit goods was becoming a significant problem in international trade that needed to be addressed. He could also accept the view that the present international rules, including Article 9 of the Paris Convention, did not provide a sufficiently effective system to prevent trade in counterfeit goods.

11. Some members reiterated their concern that the present international law in GATT and WIPO did not adequately safeguard against the possibility that action against trade in counterfeit goods could give rise to difficulties for legitimate trade.
If the present international law is not adequate, does further multilateral action need to be taken or would purely national action be sufficient?

12. Some members said that, in addition to the two reasons outlined in MDF/11, paragraph 14, for the need for an improved multilateral framework within which national action against trade in counterfeit goods would take place (concern about unfair competition from imports of counterfeit goods in third markets and the need to safeguard against giving rise to obstacles to legitimate trade), further multilateral action was also desirable to ensure that action against trade in counterfeit goods was sufficiently concerted among countries; if the degree of effectiveness varied greatly between countries, trade flows of counterfeit goods might merely be switched from one market to another.

13. Some other members also stressed the desirability of multilateral action so as to forestall the risk that unilateral national measures might give rise to obstacles to legitimate trade.

14. Some members said that to them the main problem was not whether or not further multilateral action was required but whether such action to provide an improved international framework for national action would more appropriately be taken in GATT or in WIPO. Problems of unfair competition in third country markets could already be dealt with using Article 9 of the Paris Convention. If the provisions of Article 9 needed to be more effectively enforced, the countries concerned 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.
If further multilateral action needs to be taken, is GATT a competent body?

15. Some members referred to the views they had formulated which are reproduced in the annex to this note.

16. A member speaking for members from a group of countries said that WIPO clearly had responsibility for the establishment of international law on international property rights. But it was not the only organization to deal with matters related to intellectual property. The objectives of GATT included the expansion of international trade and the reduction of barriers to such trade. Trade in counterfeit goods undermined the attainment of these objectives. Accordingly, these members did not see any reason why trade issues involving intellectual property rights could not be dealt with in the GATT.

17. Some members remained of the view that the matter raised was essentially a question of the protection of intellectual property, that was the concern of WIPO. Articles 9, 10, 10ter of the Paris Convention made clear the competence of the WIPO in this regard. The GATT was not a competent forum to deal with a critical question in any joint action, namely the determination of what was a counterfeit good and what was not.

(d) Even if the GATT is a competent body to deal with problems of trade in counterfeit goods, is it an appropriate one?

18. Some members said that there were a number of aspects to the present problem of counterfeiting: these related respectively to the production of, domestic sale of and international trade in counterfeit goods. Although these members were faced with political and commercial pressures
for further action to deal with all these aspects, they were not suggesting that GATT should deal with all of them, but only with the international trade aspects. Action in the GATT should be complementary to existing international law and would not preclude appropriate action in other fora, such as WIPO or the CCC.

19. Some members were of the view that, if any multilateral action needed to be taken, it should be based on the existing provisions of the Paris Convention which already provided a good framework for that action; accordingly it should be undertaken in the organization that administers that Convention, namely WIPO. In this regard, they wished to know what efforts, if any, had been made by those countries wishing for further multilateral action, to initiate such action in the WIPO and, if no such efforts had been made, why not. These questions needed to be answered if the Group were properly to fulfill its mandate of further clarifying the legal and institutional aspects involved and for the Council to be able to take the decisions required of it "having full regard to the competence of other international organizations" as stated in the Ministerial Declaration.

20. The members to which these questions were addressed said that they were not aware that in recent years any country had raised in any formal manner in the WIPO the question of the adequacy or not of Article 9 of the Paris Convention. Their countries had not considered WIPO an appropriate forum to deal with the problem of international trade in counterfeit goods, as defined, for example, in paragraph 28 of MDF/W/19, because for reasons explained earlier, they did not feel that WIPO would be an effective forum for dealing with such trade problems, notably as they related to the need to safeguard against creating barriers to legitimate trade. They said that
the question before this Group was whether action should be taken in GATT, not whether it should be taken in WIPO, which was a question that could only be answered by WIPO.

(e) What would be the modalities of joint action in the GATT if it were found to be appropriate?

21. There was 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 was appropriate. However, it was 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 had been raised by certain members.

22. The Chairman suggested that the Group focus on the following questions that had been raised in earlier discussions but had not been fully explored: what should the mechanisms of any joint action be and should such mechanisms be the same for goods at the border as for those in domestic circulation; who should determine whether suspect imports infringe trademark rights (customs and/or courts) and what should be the criteria for determining infringement; what is the relevance of the issue of parallel imports; what should be the remedies and sanctions provided for against importers of counterfeit goods; what is the danger of action to combat counterfeit goods giving rise to obstacles to legitimate trade and how can this best be safeguarded against.
23. A member outlined the general thinking of his country on the question of modalities. In regard to the respective rôles of GATT and WIPO, his authorities considered that an analogy already existed in GATT, in the Agreement on Technical Barriers to Trade. Under that Agreement the rôle of the International Standards Organization (ISO) in working on substantive standards problems and that of the GATT in dealing with the trade aspects could be considered analogous to the rôle of WIPO in dealing with substantive intellectual property law and that of GATT in dealing with the trade aspects in regard to trade in counterfeit goods. As for the nature of any action in the GATT on trade in counterfeit goods, many of the concepts employed in the Agreement on Technical Barriers to Trade could also be employed: any joint action in the GATT should be a framework agreement; it should provide for notification and review of national actions and legislation; it should provide general guidelines for dealing with the international trade aspects, including transparent procedures in the enforcement of anti-counterfeit law and some degree of international harmonization of procedures so as to allow for predictability in international trade; it should safeguard against the creation of non-tariff barriers in the application of national legislation; and it should contain an international dispute settlement mechanism to resolve any disputes that might arise.

(f) What should the mechanisms of any joint action be; should such mechanisms be the same for goods at the border as for those in domestic circulation?

24. As regards mechanisms, some members said that a number of possibilities for enabling the trademark owner to enforce his rights against counterfeit goods before they were cleared through customs existed.
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 to seek action and would further require him, as a pre-condition for such action, to demonstrate the validity of the trademark rights he is seeking to protect. The possible mechanisms included:

- Giving customs the administrative authority, subject to appeal, to detain suspect goods, determine whether they were counterfeit and to decide on the disposal of the goods. If the importer challenged 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.

25. As regards which of these mechanisms should be provided for in any joint action, some members said that a number of possibilities existed. One was 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 were effective. Another possibility would be to reach agreement on a specific mechanism to be applied by all countries. Some members considered that, provided administrative action was confined to imports involving unauthorized representations of an identical or substantially identical trademark on the same goods as the trademark is registered for, and did 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. Some members were of the view that action against counterfeit goods should normally be a responsibility of the judicial authorities, on the grounds that customs were not technically equipped to identify counterfeit goods, which were often increasingly good imitations of genuine goods, and an erroneous seizure would cause serious difficulties for legitimate trade, notably trade of a seasonal nature. Moreover, experience of actions against counterfeiting within countries had shown that competent administrative authorities tended sometimes, for political or economic reasons, to delay or prevent the examination of the complaint. Some members noted that to some extent which mechanism or mechanisms were appropriate would depend on the type of trademark offence that the mechanisms were expected to deal with.

26. As regards the question of whether the mechanisms should be the same for goods at the border as for those in domestic circulation, some members were of the view that, while the substantive intellectual property law to be applied should be the same, some degree of differentiation in the procedures was inevitable, if only because imported counterfeit goods cross frontiers and the customs became involved. Such differentiation was necessary because, whereas the domestic production of counterfeit goods and their subsequent sale could generally be stopped at source, i.e. at the point of production, this was much more difficult in the case of a foreign producer, since he was not within the national jurisdiction and often difficult to detect anyway (see MDF/W/19, paragraph 87). Some other members said that, in their view, the basic problems involved in combating the commercialization of counterfeit goods were the same whether at the border or internally; they did not consider any valid reason existed for envisaging different procedures according to the origin of the goods.
(g) Who should determine whether suspect imports infringe trademark rights and what should be the criteria for determining infringement?

27. Some members said that at least the final determination of infringement should always be made by the courts. Some other members considered that the possibility of customs making such determinations should not be excluded, provided they were subject to appeal to a judicial authority. Some members 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. Noting that concern had been expressed that problems may arise because of differing criteria for determining infringement in different countries, some members said that consideration of this issue would depend on the type of trademark offence involved and the consequent complexity of the determinations required. If any joint action were 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 would be unlikely to be complex and the question of differing criteria in different countries unlikely to arise.

(h) What is the relevance of the issue of "parallel" imports?

28. Some members said that "parallel" imports, by definition, were genuine goods; not being counterfeit, they would therefore not fall within the ambit of any joint action on counterfeit goods. In this regard, they noted that the definition of counterfeit goods suggested in earlier discussions specifically excluded imported goods which had 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 were imported in contravention of a commercial agreement (MDF/W/19, page 9, footnote).

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

29. Some members said that the aim should be to ensure that the economic incentive for the importation of counterfeit goods was 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.

(j) 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 referred to the danger that procedures and sanctions directed against imports of counterfeit goods could be applied to imports of legitimate goods. A member suggested that such dangers could be safeguarded against by ensuring that action against imports of counterfeit goods only took place on the basis of a court ruling and that the mechanisms for such action, as well as the substantive intellectual property law applied, were the same for goods on importation as for goods in domestic circulation. Another members said that the risk of giving rise to obstacles to legitimate trade could be avoided through suitable safeguards in regard to such matters as proof of ownership of the trademark, demonstration of likelihood imports of counterfeits and possible provision of financial security by the trademark owner before suspect goods
were detained; provision for compensation to importers if their legitimate interests were adversely affected; provision for appeal to a judicial body; and suitable multilateral mechanisms for transparency, consultation and dispute settlement in the event that difficulties arose. Some members said that the sort of obstacles to legitimate trade that might arise would be clearer after study of existing national procedures and those proposed under any joint action in the GATT framework.

Consideration of elements of inclusion in the Group's Report

31. The Chairman noted that this item was on the agenda because the Group had agreed at its last meeting to consider what kind of report could be presented to the Council (MDF/11, paragraph 25). He noted that it was too early to draft the Group's report, but suggested that, as a first step, the secretariat be requested to prepare a paper setting out in one place the issues that had been the focus of the Group's discussions and the views expressed on them, as a help in the Group's further work. The Group so agreed.

Other Business

(i) Exhibition of counterfeit goods for members of the Group

32. The member from the European Communities said his understanding of the views on this point at the last meeting was that some felt that an exhibition would be useful while others thought that it could at least do no harm. On this basis, the European organization which represented firms dealing in trademarked goods was in the process of putting together an exhibition that could be presented at the July meeting of the Group. The
exhibition with the accompanying exposé should serve to help the Group better understand the commercial viewpoint.

33. The Chairman noted that this exhibition and presentations would not be a part of the meeting of the Group but would be for the benefit of interested participants in the work of the Group.

(ii) United Kingdom exhibition

34. The member from the United Kingdom informed the Group that an exhibition was currently being held at the Design Centre in London; it would last until the end of June. The exhibition was showing not only counterfeits of British goods but also of the goods of some other countries. The exhibition would move on to Glasgow in August. It was an illustration of the concern about counterfeiting felt outside government in the United Kingdom.

(iii) Next meeting

35. The Group agreed to meet again on 8-9 July to continue its work, starting at 11.00 a.m. 8 July. As for the exhibition, it was noted that this would take place late in the afternoon of 8 July and that a room would be made available in the GATT building for this purpose.
ANNEX

GROUP OF EXPERTS ON TRADE IN COUNTERFEIT GOODS
Views of a Number of Experts

GENERAL CONSIDERATIONS

The counterfeiting of trademarked goods is an international problem which is a serious threat to legitimate trade. Trade in these counterfeit goods is no longer restricted to any particular sector of international commerce. It affects not only the economic interests of trademark owners and producers of legitimate goods, including component parts, but also poses health and safety risks to consumers in many countries.

Existing national and international mechanisms have proven inadequate in addressing the problems presented by trade in counterfeit goods. Recognizing this, the Contracting Parties to GATT instructed the Council "to examine the question of counterfeit goods with a view to determining the appropriateness of joint action in the GATT framework ... and, if such action is found to be appropriate, the modalities for such action...." They further agreed to establish the Group of Experts to facilitate the Council's examination of this question.

Stronger measures at the international level are needed to stem the flow of counterfeit trademarked merchandise. The GATT provides an appropriate framework for the establishment of such measures. If undertaken in GATT, these measures would complement efforts at the national level and those in other international fora, thus providing a more effective deterrent to trade in counterfeit goods, and at the same time minimizing the risks of creating new barriers to legitimate trade.

With these considerations in mind, and in an effort to move the work of the Group forward so that it may submit its report to the Council within the required time, this document sets forth the shared views of a number of experts with regard to the appropriateness of joint action in the GATT on the trade aspects of commercial counterfeiting. It focuses on the counterfeiting of trademarked goods, in keeping with the broadly shared view that this should be the initial focus of the Group's attention.
GATT COMPETENCE

The World Intellectual Property Organization (WIPO), in administering the Paris Convention, clearly has responsibility for dealing with issues related to the establishment of the minimum international law applicable to the protection of industrial property. It is not, however, the only international body which has competence to deal with matters affecting the exercise of intellectual property rights. The GATT has competence to ensure that measures introduced by its contracting parties to combat commercial counterfeiting are in full conformity with the basic rules of the General Agreement and any other relevant GATT instruments. To the extent that measures adopted to discourage international trade in counterfeit goods require the intervention of customs officials, the Customs Cooperation Council (CCC) has competence to ensure that any measures introduced by its member countries are consistent with its basic rules and policies.

Trade issues involving intellectual property rights are addressed within the provisions of the General Agreement. Articles XII, XVIII, and XX contain express references to patents, trademarks, and copyrights. Article XX(d) provides an exception from the GATT's basic provisions, in order to allow for, inter alia, measures relating to the protection of trademarks. Pursuant to this exception, measures such as the seizure of counterfeit goods are permissible provided that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail or a disguised restriction on international trade.

Trade issues involving intellectual property rights have already been the subject of dispute settlement under the General Agreement; for example, the Canada-US dispute involving automotive spring assemblies (L/5333).

The objectives of the GATT include the expansion of world trade and the reduction of barriers to such trade. International trade in counterfeit goods undermines these objectives. The GATT, therefore, clearly has competence to deal with the problems presented by international trade in counterfeit goods, given its responsibility for trade and on the basis of existing precedents. This competence pertains both to the establishment of guidelines for measures dealing with imported counterfeit goods, as well as to verification that measures introduced by contracting parties are consistent with the rules of the General Agreement.
GATT ACTION

The GATT is the main international body with specific responsibility for dealing with international trade issues. It establishes rights and obligations that govern international trade in goods; it provides a mechanism for resolving disputes regarding contracting parties' understanding of those rights and obligations. The dispute settlement mechanism also can be used to resolve problems that result in impairment of a contracting party's trade even where there may be no violation of the provisions of the General Agreement per se.

Because of the increasing seriousness of the problem, contracting parties are introducing new measures or strengthening existing measures to curb trade in counterfeit goods. The introduction of new measures or the strengthening of existing ones, unless carefully devised and managed, could create new barriers to legitimate trade. Currently there is no requirement that such measures be notified to GATT. As a result, other contracting parties may not be aware of a measure's existence until their exports are affected adversely.

Without prejudice to action which may be undertaken in the WIPO or elsewhere, action should be taken in the GATT to lay down guidelines for dealing with the international trade aspects of commercial counterfeiting with the aim of curbing international trade in counterfeit goods while avoiding barriers to legitimate trade.

Such guidelines would establish the nature of the actions countries would be required to take to repress international trade in counterfeit goods, and to eliminate the economic incentives for such trade, while ensuring that those actions do not become non-tariff barriers to legitimate trade. The GATT has developed procedures for the systematic notification and review of national legislation affecting specific areas of international trade; these procedures ensure transparency in the conduct of trade. The GATT's consultation and dispute settlement machinery would be available to deal with disputes between parties either as a result of a party's failure to fulfil its obligations or because the way in which it has fulfilled those obligations has impaired legitimate trade.
For measures to repress international trade in counterfeit goods to be most effective, they must be consistent from country to country, thereby preventing the counterfeiters from merely shifting their products from one market to another. Joint action in GATT would provide a framework that contracting parties would use in seeking to eliminate the problem, while avoiding the introduction of new non-tariff barriers to legitimate trade. Such a framework is essential. Without it, countries will act independently, the measures taken will be less effective, and the result may be the imposition of non-tariff barriers to legitimate trade.