

ELGAR COMMENTARIES

INTELLECTUAL PROPERTY ENFORCEMENT

A Commentary on the
Anti-Counterfeiting Trade Agreement (ACTA)



Michael Blakeney



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Abbreviations

ACE	Advisory Committee on Enforcement (WIPO)
ACG	Anti-Counterfeiting Group
ACP	African, Caribbean and Pacific Group of States
ACTA	Anti-Counterfeiting Trade Agreement
AFACT	Australian Federation Against Copyright Theft
ARIPO	African Regional Industrial Property Organization
AU	African Union
BASCAP	Business Action to Stop Counterfeiting and Piracy
BIT	bilateral investment treaty
CBP	Customs & Border Protection
CEBR	Centre for Economics and Business Research
CIB	Counterfeiting Intelligence Bureau
CJEU	Court of Justice of the European Union
DSB	dispute settlement body
DSU	Dispute Settlement Understanding
EC	European Commission
ECJ	European Court of Justice
EDPS	European Data Protection Supervisor
EPA	economic partnership agreement
EPO	European Patent Office
ETM	effective technological measure
EU	European Union
EUROPOL	European Police Office
FBI	Federal Bureau of Investigation
FFII	Foundation for a Free Information Infrastructure
FOIA	Freedom of Information Act
FTA	free trade agreement
GACG	Global Anti-Counterfeiting Group
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GI	geographical information
GSP	Generalized System of Preferences
IACC	International Anti-Counterfeiting Coalition
ICC	International Chamber of Commerce

ICCPR	International Covenant on Civil and Political Rights
ICE	Immigration and Customs Enforcement (US)
ICESCR	International Covenant on Economic, Social and Cultural Rights
IFPI	International Federation of the Phonographic Industry
IIPA	International Intellectual Property Alliance
INTA	International Trademark Association
INTERPOL	International Criminal Police Organisation
IP	intellectual property
IPC	intellectual property crime
IPR	intellectual property rights
ISP	Internet service provider
KEI	Knowledge Ecology International
LDCs	least developed countries
MFN	most favoured nation
MPA	Motion Picture Association
NGO	non-governmental organization
OAPI	African Intellectual Property Organization
OECD	Organisation for Economic Co-operation and Development
OHIM	Office for Harmonization in the Internal Market (Trade Marks and Designs)
PoC	proceeds of crime
R&D	research and development
RCO	Rapport sur la Contrefaçon et la Criminalité Organisée
RTA	regional trade agreement
SAIC	State Administration on Industry and Commerce
SECURE	Standards to be Employed by Customs for Uniform Rights Enforcement
STOP!	Strategy for Targeting Organized Piracy
TAXUD	EU Taxation and Customs Union
TEU	transport equivalent unit
TLT	Trademark Law Treaty
TPM	technical protection measure
TRIPS	WTO Agreement on Trade-Related Aspects of Intellectual Property Rights
TSPC	Trade Policy Staff Committee
UK	United Kingdom
UN	United Nations
UNICRI	United Nations Interregional Crime and Justice Research Institute
UPOV	International Union for the Protection of New Varieties of Plants

URL	uniform resource locator
US	United States of America
USC	United States Code
USPTO	United States Patent and Trademark Office
USTR	US Trade Representative
WCO	World Customs Organization
WCT	WIPO Copyright Treaty
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WPPT	WIPO Performances and Phonograms Treaty
WTO	World Trade Organization

Preface

The Agreement on Trade Related Aspects on Intellectual Property Rights ('TRIPS Agreement'), which was adopted by the members of the World Trade Organization (WTO) in 1994 and which came into effect in 1995, contained a battery of enforcement measures to deal with a growing trade in counterfeit and pirate products which was estimated to be worth US\$60 billion annually. Ten years later this trade was estimated to have grown at least ten fold. At the TRIPS Council meeting in June 2006 the EU had called for an 'in-depth discussion' of enforcement issues.¹ This proposal met with strong opposition from the leading developing countries such as Argentina, Brazil, China and India, who considered the enforcement issue a diversion from the Doha Development Agenda. At the TRIPS Council meeting in October 2006, the EU, with support from Japan, Switzerland and the US, submitted a joint communication which asserted that the TRIPS Council was 'an appropriate forum to examine and assist Members in the implementation of enforcement provisions of the TRIPS Agreement' and that the work of the TRIPS Council 'should complement Members' efforts to use other cooperative mechanisms to address IPR enforcement'.² These efforts to raise the issue of enforcement at the WTO were unsuccessful. Contemporaneously with these initiatives, at the WTO Japan had proposed a Treaty on Non-proliferation of Counterfeits and Pirated Goods at meetings of the Global Congress on Combating Counterfeiting and Piracy hosted by INTERPOL and the World Customs Organization in 2005 and 2006.

The increasing estimates of the amount of world trade in infringing products, its impacts upon economic life, as well as its implications for organized crime and terrorism had resulted in the subject of counterfeiting and piracy being placed on the agenda of the G8 group of countries. The 2005 meeting at Gleneagles issued a statement announcing that the participants would take steps to 'promote and uphold laws, regulations and/or procedures to strengthen effective intellectual property enforcement'; this was reaffirmed by the St.

¹ *Enforcing Intellectual Property Rights: Border Measures: Communication from the European Communities*, WTO doc., IP/C/W/471, 9 June 2006.

² *Enforcement of Intellectual Property Rights: Joint Communication from the European Communities, Japan, Switzerland and the United States*, WTO doc., IP/C/W/485, 2 November 2006, para.4.

Petersburg G8 meeting in 2006, which issued a declaration on the subject, and the 2007 G8 Summit in Heiligendamm saw the establishment of an Intellectual Property Rights Task Force, which was given the responsibility to determine measures to improve international IPR protection and enforcement. On 23 October 2007, a statement was issued by the US, EU, Japan, South Korea, Mexico, New Zealand, Switzerland and Canada announcing the commencement of negotiations between them for a Plurilateral Anti-Counterfeiting Trade Agreement (ACTA).

After a controversial three years of negotiations, which had been conducted for the first two years in conditions of enforced secrecy, a final version of the text was published by the negotiating parties on 3 December 2010. The ACTA was finally adopted by the negotiating parties on 15 April 2011 and was opened for signature for two years from 1 May 2011. On 1 October 2011 a special signing ceremony was held in Tokyo with the United States, Australia, Canada, Japan, Morocco, New Zealand, Singapore and South Korea all signing the agreement.

The joint press statement issued by the negotiating parties explained that the agreement provides for: (1) enhanced international cooperation; (2) promotion of sound enforcement practices; and (3) a legal framework for IPR enforcement in the areas of criminal enforcement, enforcement at the border, civil and administrative actions, and distribution of IPR infringing material on the Internet and that 'with respect to the legal framework, the ACTA establishes a strengthened standard that builds on the minimum standards of the [TRIPS Agreement] marks a considerable improvement in international trade norms for effectively combating the global proliferation of commercial-scale counterfeiting and piracy in the 21st Century.'³

This book examines the ACTA negotiations, the debate about the metrics and impacts of the global trade in counterfeit and pirate products and undertakes a detailed annotation of the provisions of the ACTA.

One of the major contributions of the ACTA to the weaponry of those seeking to enforce intellectual property rights against those trading in counterfeit and pirate products is the principle that both the direct and indirect benefits obtained by those participating in this trade should be subject to confiscation. Louise Blakeney, who has considerable practical experience as a prosecution lawyer in implementing confiscation actions in Australia and the UK, has contributed Chapter 9, which addresses this subject.

Michael Blakeney
Perth
November 2011

³ See <http://www.ustr.gov/about-us/press-office/press-releases/2011/october-joint-press-statement-anti-counterfeiting-trade-ag>

For Louise, in anticipation of a lifetime of Myalup sunsets

Contents

<i>List of tables</i>	vi
<i>List of abbreviations</i>	vii
<i>Preface</i>	x
1. Impacts of counterfeiting and piracy	1
2. Negotiating ACTA	27
3. Preamble	80
4. Initial provisions and definitions	93
5. Legal framework	131
6. Civil enforcement	138
7. Border measures	165
8. Criminal enforcement	195
9. Confiscation	223
10. Enforcement in the digital environment	263
11. Enforcement practices	309
12. International cooperation	321
13. Institutional arrangements	349
14. Final provisions	359
<i>Appendix: Anti-Counterfeiting Trade Agreement</i>	363
<i>Index</i>	387

Tables

9.1	Seizures by Serious Organised Crime Agency, 2006–09	235
12.1	International and intergovernmental organizations concerned with IPRs	347

1. Impacts of counterfeiting and piracy

INTRODUCTION

Counterfeiting and piracy have become world trade issues because of increasing estimates of their size and because of the concerns about the multifarious adverse impacts of this trade. At the time of the Uruguay Round, the US\$60 billion estimate of the size of the trade in counterfeit and pirate products justified the claim that intellectual property (IP) infringements had become ‘trade related’, justifying the shift of the international IP regime from the World Intellectual Property Organization (WIPO) to the General Agreement on Tariffs and Trade (GATT). As is discussed in Chapter 2, perceptions of the continuing and exponential growth in this trade and of its multifarious harmful impacts stand at the basis of the proposals for the Anti-counterfeiting Trade Agreement (ACTA).

It should be acknowledged that objections have been made by a number of commentators to the use of the emotive and criminal law-laden terms ‘counterfeiting’ and ‘piracy’ in the discourse about intellectual property rights (IPR) infringements.¹ For example, in the context of access to medicines, Correa criticizes the obfuscation caused by the ‘inappropriate use of the concept of “counterfeiting” or “piracy” to describe situations in which legitimate generic versions of medicines are introduced without the consent of the originator of the drug’.² The justification for the use of these terms is the apparent exponential growth in this trade, even though its clandestine nature makes its detection difficult.

Metrics

The inflating size of the trade attributed to counterfeit and pirate products has had an inevitable impact on the formulation of international IP enforcement

¹ For example, S. Musungu, ‘IPR Infringements and Enforcement – Accounting for Socio-Economic, Technical and Development Variables’ WIPO/ACE/6/10, 3 September 2010.

² C. Correa in C. Fink and C. Correa, ‘The Global Debate on the Enforcement of Intellectual Property Rights and Developing Countries’, Issue Paper 22, Geneva, ICTSD, 2008.

policy and is certainly part of the matrix of considerations which precipitated the ACTA. However, there is a good deal of imprecision in the metrics of counterfeiting and piracy. One reason for this is that because it is a clandestine and criminal activity, the true extent of counterfeiting and piracy is impossible to calculate with accuracy. The statistics of industry associations, because they are intended to highlight the extent of the problem of the trade in infringing products, are invariably biased upwards.³ For example, if collected through questionnaires addressed to traders, there is a natural tendency for those traders to overestimate the sales which they might have made, but for the presence of counterfeiting and piracy. Similarly, the statistics of enforcement authorities, such as police and customs are also likely to be exaggerated with a view to securing favourable budget allocations. For example, the valuation of seized counterfeit products at the level of the genuine products which they imitate is likely to produce very high values.

Enforcement statistics are also criticized as being heavily dependent upon the investigation process; for example, it may be a function of changing enforcement priorities.⁴ An increase for example in the number of cigarettes seized may be a result of the targeting of counterfeit cigarettes, rather than an increase in the incidence of cigarette counterfeiting.

The conventional estimate of the size of the annual losses to US industry from the global trade in counterfeit goods at the time of the launch of the Uruguay Round was US\$60 billion.⁵ This figure is apparently derived from the 1988 estimates by the US International Trade Commission of losses from counterfeiting.⁶ This had apparently risen from an estimated at \$5.5 billion in 1982.⁷ A report by the Organisation for Economic Co-operation and

³ See D. Bosworth, 'Counterfeiting and Piracy the State of the Art', Intellectual Property In The New Millennium Seminar, Oxford Intellectual Property Research Centre, St Peter's College, 9 May 2006, 14.

⁴ For example see K. Olsen, Background report for the WIPO/OECD Expert Meeting on Measurement and Statistical Issues, Geneva, 17–18 October 2005, 10.

⁵ For example G.W. Abbott, Jr and L.S. Sporn (eds), *Trademark Counterfeiting* § 1.02[A] (2002).

⁶ *Foreign Protection of Intellectual Property Rights and the Effect on U.S. Industry and Trade*, Report to the United States Trade Representative, Investigation No. 332–245, Under section 332(g) of the Tariff Act of 1930 (USITC Publication 2065) at App. H (February 1988), cited by IACC, White Paper. The Negative Consequences of International Intellectual Property Theft: Economic Harm, Threats to the Public Health and Safety, and Links to Organized Crime and Terrorist Organizations, January 2005, http://www.iacc.org/resources/IACC_WhitePaper.pdf, at n.5.

⁷ See S. Rep. No. 104–177, 104th Cong., 1st Sess. 1–2 (1995). See also *The Effects of Foreign Product Counterfeiting on U.S. Industry*, Final Report on Investigation No. 332–158, under section 332(b) of the Tariff Act of 1930 (USITC Publication 1479) at xiv & 24 (January 1984), cited *ibid* at n.4.

Development (OECD) in 1998 while conceding the impossibility of finding accurate statistics to substantiate perceptions of the increase in the scale of the trade, because of its clandestine nature, stated that the 'overall costs of counterfeiting in the world today are normally estimated to be 5–7 per cent of world trade. There is no substantial aggregated data to support the high percentages, but the figures are now accepted and used to illustrate the extent of the counterfeiting problem.'⁸ In purported justification of this estimate the OECD report referred to a 1997 report by the Counterfeiting Intelligence Bureau (CIB) of the International Chamber of Commerce (ICC), which looked at the WTO's estimate of the size of world trade of nearly US\$5,000 billion in 1995 and which 'took the general assumption that counterfeiting has increased from 3 per cent in 1990 to more than 5 per cent in 1995, giving a value of approximately US\$250 billion for that year'.⁹

This OECD estimate, based on the CIB estimate, has been taken as an authoritative figure by subsequent studies; thus a 2004 report by Union des Fabricants on *Counterfeiting and Organised Crime*¹⁰ stated:

Globally, an OECD report published in 1998 estimated that counterfeiting was generating €250 billion in illegal earnings annually and represented 5 to 7 per cent of world trade.¹¹

In an endeavour to deal with the looseness of counterfeiting and piracy statistics, WIPO and the OECD held an Expert Meeting on Measurement and Statistical Issues in October 2005 in which metrics methodology was discussed.¹² In 2007 the OECD published the first part of a detailed study on *The Economic Impact of Counterfeiting and Piracy*.¹³ It concluded that 'international trade in counterfeit and pirated products could have been up to USD 200 billion in 2005'¹⁴ and that 'counterfeiting and piracy are taking place in virtually all economies'¹⁵ and that the magnitude of this trade 'is larger than the national GDPs of about 150 economies around the world'.¹⁶

⁸ OECD, *The Economic Impact of Counterfeiting*, Paris, OECD, 1998, 23.

⁹ *Ibid.*, 24.

¹⁰ Union des Fabricants, *Counterfeiting and Organised Crime Report*, 2nd edition, Paris, UdeF, 2004.

¹¹ *Ibid.*, 4.

¹² See K. Olson, *Counterfeiting and Piracy: Measurement Issues*, Background report for the WIPO/OECD Expert Meeting on Measurement and Statistical Issues on 17–19 October 2005, Paris, OECD Secretariat.

¹³ OECD Doc, DSTI/IND(2007)9/PART4/REV1, 4 June 2007.

¹⁴ *Ibid.*, 2.

¹⁵ *Ibid.*, 11.

¹⁶ *Ibid.*, 13.

This report was compiled through questionnaires sent to customs officials and to government officials in the OECD and a number of non-OECD economies and through questionnaires that were circulated to industry.¹⁷ The OECD also explained that 'meetings were organised with the music, movie, pharmaceutical and automotive industries to review drafts and/or develop additional information'.¹⁸ This methodology would seem to be vitiated by the institutional biases indicated above. In any event, as customs statistics seem to have been the main source of the OECD's data, its totals did not include domestically produced and consumed counterfeit and pirated products and the significant volume of pirated digital products being distributed via the Internet. For example, a 2008 survey conducted in the UK estimated that around £800 million worth of counterfeit goods pass through online shopping and auction sites in the UK annually.¹⁹

It should be acknowledged that the OECD report recognizes that their estimates are only 'a crude indicator' of the value of counterfeit and pirated products in international trade. This qualification is certainly justified when customs statistics are the basis for the estimate. For example, EU customs are physically able to inspect no more than 3–5 per cent of all cargo passing Community borders.²⁰ Seizure rates are influenced by the risk-profiling schemes employed by customs authorities to detect illicit goods and thus reflect their priorities in relation to searches of particular product categories, or source countries.

Another factor is the valuation of the seized products. Sometimes seized products are valued as if they are genuine or are treated as if they represent lost sales and the statistics from some markets are extrapolated to others.²¹

In May 2005, the International Chamber of Commerce had reported that the global trade in counterfeits had reached US\$600 billion.²² In the same month the Gieschen Consultancy reported the size of counterfeiting to exceed US\$3

¹⁷ Ibid., 7.

¹⁸ Ibid.

¹⁹ Study by DLA Piper, www.vnunet.com/vnunet/news/2220773/online-counterfeit-goods-market-800m.

²⁰ Council of Europe, Committee on Economic Affairs and Development, *Counterfeiting: Problems and solutions*, Doc. 10069, 11 February 2004, para 17.

²¹ For example Business Software Alliance (BSA) 'Seventh Annual BSA and IDC Global Software Piracy Study', available at <http://portal.bsa.org/globalpiracy2009/studies/globalpiracystudy2009.pdf>; LEK Consulting, *The Cost of Movie Piracy: an Analysis Prepared by LEK for the Motion Picture Association*, available at <http://www.archive.org/details/MpaaPiracyReport>.

²² Maria Livanos Cattau, ICC Secretary, 'Counterfeiting is out of control' 13 May 2005, <http://www.iccwbo.org/bascap/iccfaca/index.html>

trillion.²³ A study commissioned by Business Action to Stop Counterfeiting and Piracy (BASCAP) and published in February 2011 projected that by 2015 the global value of counterfeit and pirated products could be up to US\$1.77 trillion.²⁴ This report amplified the findings of the EOCED by including digital, which it estimated as accounting for between 6.5 per cent and 12 per cent of the total value of counterfeit and pirated products consumed, and which was projected to account for US\$210 billion in sales by 2015.²⁵

Methodology

The apparently exponential growth of the global trade in counterfeit and pirate products has obviously been influential in placing IP enforcement on the agenda of international and intergovernmental organizations. Those who oppose this agenda have begun to question the veracity of the statistics.

At one end of the spectrum of commentators on the metrics of counterfeiting is the American financial journalist Felix Salmon, who argues that most counterfeiting statistics are fabricated. He ridiculed the statistics tabled by the New York City Comptroller William C. Thompson Jr.²⁶ that one-third of all expenditures in New York went towards the purchase of counterfeit goods.²⁷ He sought to track down the estimate that 5–7 per cent of world trade was taken up with counterfeit and pirate products and reported the assessment of Peter Lowe, the assistant director of the International Chamber of Commerce's Counterfeiting Intelligence Bureau, that the source of the statistics was 'lost in the mists of time'.²⁸ As was pointed out above, this estimate was contained in the OECD's 1998 report, which conceded that there was 'no substantial aggregated data to support the high percentages, but the figures are now accepted and used to illustrate the extent of the counterfeiting problem'.²⁹ One factor

²³ DOPIP Security Counterfeit Intelligence Report, http://www.goldsec.com/Security_Research.htm

²⁴ Frontier Economics Ltd, London, *Estimating the global economic and social impacts of counterfeiting and Piracy*. A Report Commissioned by Business Action to Stop Counterfeiting and Piracy (BASCAP), February 2011, available at <http://www.iccwbo.org/uploadedFiles/BASCAP/Pages/Global%20Impacts%20Final.pdf>, at 8–9.

²⁵ *Ibid.*, at 9.

²⁶ William C. Thompson Jr., *Bootleg Billions. The Impact of the Counterfeit Goods Trade on New York City*, November 2004.

²⁷ Felix Salmon, 'Thompson's Counterfeit Numbers', *The New York Sun*, 2 December 2004, <http://www.felixsalmon.com/nysun.html>.

²⁸ Felix Salmon, 'All counterfeiting statistics are bullshit', <http://www.felixsalmon.com/000363.html>, 9 June 2005.

²⁹ OECD, *The Economic Impact of Counterfeiting*, Paris, OECD, 1998, 23.

which he identified in contributing to the high estimates of the value of this trade is the fact that counterfeit products are often given the same value as genuine items. He refers to the UK Patent Office's Annual Enforcement Report 2004, which refers to seizures by the Police Service of Northern Ireland (PSNI).³⁰ Seizure of 40,000 videos and DVDs worth £2,000,000, 80,500 music CDs and cassettes worth £1,800,000, and 5,000 pieces of computer software worth £450,000 are listed.³¹ This means that the PSNI priced counterfeit CDs at an average of £22.36; counterfeit DVDs and videos at an average of £50; and counterfeit software at an average of £90. These estimates are clearly unrealistic, as in most cases they even exceed the cost of the genuine item.³² Salmon reasons that these inflated figures are used by the enforcement authorities to secure larger budgets. However, the success of business lobbyists in securing the TRIPS Agreement by reference to alleged losses of US\$60 billion per annum has been taken as an encouragement to the business lobby 'in ensuring that no costs of counterfeiting are overlooked' as 'the greater the costs, the greater the problem and the more seriously the argument is to be taken'.³³ Commensurately, the greater the problem, the more likely will it be that the government will assume the obligation for correcting the situation.

As the alleged scale of the trade in counterfeit and pirate products has been one of the principal justifications for ACTA, opponents of the strengthening of the international enforcement regime have insisted that an accurate picture of the metrics of counterfeiting and piracy be established before action is taken. At the fifth session of WIPO's Advisory Committee on Enforcement (ACE), 2–4 November 2009, the delegations of Brazil and Pakistan called for objective empirical assessments of the nature and extent of IPR infringements, and an evaluation of the availability and reliability of the available data.³⁴ For the November 2010 meeting of the ACE, a literature review of methodologies and gaps in the existing studies was undertaken by Fink, Maskus and Yi Qian.³⁵ This review found that most of the 'large number of studies exist that seek to

³⁰ <http://www.ipo.gov.uk/enforcereport2004.pdf>, at 51.

³¹ *Ibid.*

³² See also Felix Salmon, 'Silly Counterfeiting Statistics. Bloomberg Edition', 11 June 2008, <http://www.felixsalmon.com/003478.html>, on Pfizer's estimates of the value of counterfeit Viagra.

³³ S. Macdonald and T. Turpin, 'Fair Copy? A look at the Anti-counterfeiting Lobby', Paper presented to the Creative Industries and Intellectual Property Conference, London, 22–23 May 2008, <http://www.dime-eu.org/files/active/0/MacdonaldTurpinPAPER.pdf> at 17.

³⁴ WIPO Doc. WIPO/ACE/5/11.

³⁵ C. Fink, K. Maskus and Yi Qian, 'The Economic Effects of Counterfeiting and Piracy: A Literature Review' WIPO/ACE/6/7, 3 September 2010.