



**European Commission DG Trade: State of intellectual property in third countries
(2023): targeted consultation on the protection and enforcement of intellectual
property rights in third countries**

APRAM Contribution

Context

In the framework of the European Union's Strategy for the Enforcement of Intellectual Property Rights in Third Countries, the European Commission (DG Trade) is launching a targeted consultation in order to gather information on the state of intellectual property protection and enforcement in third countries.

The main objective of this consultation is to identify third countries in which the state of IPR protection and enforcement gives rise to the highest level of concern and to update the list of the so called "priority countries". The targeted consultation will be one of the tools used to help improve the IPR systems in third countries. It will help the European Commission focus its efforts and resources on the priority countries and on the specific areas of concern, with the aim of improving IPR protection and enforcement worldwide.

The results of this consultation will also enable rights holders to gain awareness of potential risks to their IP when engaging in business activities in the priority countries and thus allow them to design business strategies and operations to protect their IP rights.

Introduction

APRAM – Association of Trademark and Design law Practitioners – is an international Francophile association regrouping Intellectual Property legal experts. The association blends the three components of the "IP family": in-house lawyers, attorneys-at-law and industrial property attorneys - which provides a unique creativeness and insight into an ever-changing world for the benefit of all its members.

We want to thank the European Commission for this opportunity to provide feedback and we would like to draw your attention to the following countries, identified by our members as problematic in terms of protection and enforcement of intellectual property rights (IPR).

Of course, this list is not exhaustive and only contains the most problematic situations highlighted by our members.

We remain at your disposal for any additional information you might need.

1. TOP PRIORITY COUNTRIES FOR 2022

Priority 1: China, Turkey, UAE

Priority 2: Argentina, Brazil, India, Indonesia, Malaysia, Vietnam

2. ASSESSMENT OF IPR PROTECTION AND ENFORCEMENT

A. China

China remains the most problematic country in terms of protection and enforcement of IPRs. Besides the well-known counterfeiting issue (see below), the application, examination and registration procedures, particularly for trademarks, are consistent pain points for companies and imply great costs. Considering application and registration processes, many hurdles can be highlighted:

- Multiple fraudulent trademarks applications by third-parties, that systematically try to register foreign trademarks in order to block the rightful applicant. Despite a clear will from the Chinese government to fight against this, opposition and invalidity procedures are rejected most of the time, even in cases that blatantly depicts bad faith. Each fraudulent filing implies a procedure with random chances of success.
- Despite these multiple fraudulent applications, the Chinese office does not suspend its procedures and given that it conducts anteriority checks, the fraudulent trademarks serve as a basis to reject new trademark applications made in good faith even when an opposition or invalidity procedure is ongoing. This leads our members to make numerous “back-up” trademarks applications to wait for the opposition or invalidity procedure to come to an end, in order to be able to oppose a priority date in the end.
- The system is a self-perpetuating, vicious circle as it pushes users to file more trademark applications as a defensive tool: as the Chinese Trademarks Office does not suspend its registration procedure when the trademark application is subject to an opposition or invalidity procedure to expedite the examination of trademark applications, this leads to even more applications.

Regarding the fight against counterfeiting, enforcement authorities are generally becoming more sophisticated and knowledgeable on IP related cases, especially those in tier-1 cities. They are mostly responsive to complaints filed by brand owners or consumers, though they may not be able to conduct raid actions promptly due to different restrictions during the lockdown period. The Chinese Police in some cities are proactive in seeking leads and the Chinese Customs have also been more active to examine and seize counterfeit products. The following areas remain problematic:

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- Reluctance or refusal to take action against (i) shops that have small quantities of counterfeits on display; (ii) shops with unauthorized use of registered trademarks/copyright materials, especially in areas outside tier-1 and tier-2 cities.
- Inconsistent judicial rulings from city to city even court to court due to varying degree of judicial practices and local protectionism remain an issue, especially outside tier-1 cities.
- Inconsistent and opaque practices on valuation of seized counterfeits continue to be an issue in criminal prosecution.
- In practice, civil suit cannot be filed jointly with criminal proceedings, and a separate civil action to obtain compensation may only be filed after the criminal judgment is issued. Some cities in China are gradually accepting the filing of civil suit collaterally to criminal proceedings but the overall pace is still relatively slow, and this is not even allowed in most of the cities.
- Counterfeiters become increasingly cautious and “innovative” in their operations, consequently, enforcement is more and more challenging. Here are some examples:
 - o Moving manufacturing & storage to remote/separate areas
 - o Small batches/production by order only
 - o Fast turnaround/quick delivery & minimal stock on premises
 - o Low quantities of fakes on display in shops

Issues also remain regarding the online counterfeiting activity:

- Selling a mix of genuine and fake products: This increases the challenges for law enforcement agencies to identify the sales volume of the infringer, and it is impossible to verify whether the products sold are authentic or not, which may lead to the failure of the case or reduce the value of the case.
- Click farming: The store pays third parties to pretend to be customers in order to improve the ranking and sales of online stores by using fake shopping methods to obtain sales and praise to attract customers. However, in the process of judicial audit, if the store can provide evidence to prove which transactions used click farming, those orders can be eliminated, thereby the case value will be reduced.
- Sales on Wechat: When purchasing fake goods on Wechat, the buyer transfers money directly, and most of them will not make records of the operations. Law enforcement agencies cannot check each amount and link it to the corresponding product, so the money in the Wechat wallet cannot be directly identified as the profit of fake sales.

A positive point to highlight is that China joined WIPO's Hague System on the International Registration of Industrial Designs, which is a major development for the International Design System. We hope this will make protecting designs easier and cheaper in China, the next step being to ensure that these designs can easily be enforced.

B. Turkey

Turkey is the second country in the world regarding counterfeiting and is a strategic place between Europe and Asia. Many counterfeit products originating from China or far-east countries reach Europe through Turkey.

The biggest challenge we have identified in the scope of anti-counterfeiting is to obtain search and seizure decision from Criminal Judges of Peace concerning suspected addresses. They generally reject the search and seizure demands without referring to any grounds to do so. Objecting to such decisions is problematic as in the procedure, the higher court examine and rule regarding the opposition instead of superior courts. Therefore, the objections are rejected most of the time since there are close relationships between the courts of peace and they do not independently and impartially give decision.

Considering the structure of courts and appointed judges, the main issue is the lack of expertise regarding IPR protection. Since there are less specialized courts alongside newly appointed judges, the proceedings are lengthier than before and judges rely much more on expert witness reports when they give a verdict, but there is lack of expertise regarding experts as well. Therefore, in many cases the verdicts are not well-grounded and solely linked to the witness report.

Another point is that sanctions are not deterrent. In Turkish law, for actions in which the penalty is less than two years and the defendant does not have a criminal record of intentional crime, the judge defers the announcement of the judgment. Therefore, in most of criminal cases regarding counterfeiting, the accused is most of the time a new person without a criminal record and is not punished because of the legal regulation regarding the deferment of the announcement of the verdict. Finally, in some cases where there are very seized counterfeit products, the accused is acquitted and the judges justify their decisions on the basis of lack of reasonable suspicion.

We have also identified recurring issues with customs. Most of the custom notifications come from customs directorate outside of İstanbul, particularly close to borders which are critical areas regarding the export and import of counterfeit products. However, these customs directorate are difficult to reach and, in many cases, does not answer phone calls or fax. Structure and organization are also problematic and can lead to the impossibility to examine seized products.

C. United Arab Emirates

The main issue highlighted by our members is the lack of coordination between the enforcement agencies/authorities of these 7 Emirates. It is not unusual for infringers to have shops in Dubai, warehouses in Sharjah and factories in Ajman. This lack of coordination has created many difficulties when seeking simultaneous action against infringers. Furthermore, there are still dark spots, like the enforcement in free trade zones that needs to be adequately addressed.

Regarding anti-counterfeiting actions, UAE enforcement authorities are in general proactive and responsive.

- Criminal: Police Departments are active in the UAE. However, the procedures are lengthy, expensive (brand owners support storage costs and procedures are long until the destruction of the goods) and in most cases require brand owners to provide genuine samples which is very problematic.

The positive aspect is that in Criminal procedures, more details and information become available regarding the Adverse Party, such as where the counterfeit goods come from (which is not the case in Administrative and Customs Cases).

- Administrative cases: procedures take less time than Criminal cases and there are no extra costs for storage. Also, no genuine samples are required. Nevertheless, in some cases the official fees of Administrative authorities for filing complaints are relatively high.

The negative aspect is that no detailed information regarding the Adverse Party becomes available in these proceedings, and the authorities in UAE do not allow the brand owner's representatives to be present during the destruction of the counterfeit goods.

- Customs: less activity and effectiveness from UAE Customs have been noticed, which are not linked to the Covid 19 crisis. For some of our members, Customs seem to have just started to inspect suspicious products in 2020, as no or very few previous cases were reported until then. However, once the brand owner files a formal complaint in order to validate the seizure, Dubai customs have a policy of re-exporting the goods to their country of origin unless the brand owner commits to recycle the goods at its own expenses once the customs case is finalized. The practice of re-exportation is not tolerable and the implementation and expenses involved for the recycling of the goods (sole option to avoid re-exportation) are still unclear and may not be cost-effective if the quantities seized are not very high. More transparency from authorities on the goods seized, their whereabouts, destruction or reshipping would be an improvement.

D. Argentina

Argentina's legal provisions are in line with international intellectual property norms and standards. Moreover, Argentina has adhered to the Paris Convention, Bern Convention, and is a member of the GATT-TRIPS Agreement among other IP treaties.

But the following limitations with negative impact on intellectual property protection and enforcement have been identified:

- Procedural deficiencies and backlogs: judicial proceedings regarding intellectual property infringements, including criminal actions, generally face considerable backlogs. For damages to be awarded, rightsholders are required to produce multiple pieces of evidence (e.g. accountant expert witness report), which contributes to cause delays in the prosecution of the case. Moreover, foreign nationals who file a lawsuit before national courts may be required to post a bond to guarantee the payment of all legal costs if the complaint is dismissed. This may happen if the defendant, after being served notice of a complaint, files the "Arraigo" preliminary objection in the answer to the complaint brief. This objection is based on the grounds that the plaintiff has no

domicile nor immovable property in Argentina. Nevertheless, there is no uniform case law regarding the validity of this preliminary objection.

- Non-deterrent level of sanctions: Courts are not inclined to award high compensations for damages resulting from IP rights infringements. Indeed, the amount that may be awarded by the courts is likely to be less than the damages suffered. There are no punitive damages in the Argentine legal system, and only damages suffered by the trademark holder may be claimed from the infringer. Thus, sanctions are not likely to have a deterrent effect on infringers. Moreover, due to the time-frame to obtain payment of damages, the amount awarded by courts - even with interests - do not compensate the effects of inflation.

Regarding the concrete examples of deficiencies of administrative and judicial mechanisms in the area of IPR we could mention that some Criminal Courts are reluctant to condemn infringers for offenses concerning IP rights; for example: several Criminal Courts have considered that consumer deception is a necessary element for sanctioning a trademark infringement when the law does not specifically request so.

The Argentine customs authority has a mechanism in place to record trademarks for use in trademark enforcement against third parties that attempt to import counterfeit goods into the country. The system should provide the trademark owners with the information of imported goods bearing their marks before they are released to the market. However, the number of ex officio seizures and seizures under the Trademark Alert System are still very low and should be improved, also the markets such as Barrio Once and La Salada continue to sale counterfeit products entering the country.

E. Brazil

Generally speaking, our members have noticed an improvement in the level of protection and enforcement of IPR in Brazil the past 2 years. The current administration of São Paulo has significantly improved enforcement of trademark, through several measures to prevent the sales of counterfeit in the city. The State Specialized Police Department (DEIC) has also increased its participation of anti-counterfeiting measures and specialized courts have been set up.

But the main challenge remains the low penalties for crimes against IPR. Lack of investments in some branches of authorities can also be highlighted as some branches of customs and police are under-staffed compared to the quantity of work (e.g. few people work in the Customs of Santos, which is the main port of Brazil), along with political changes affecting important initiatives and the level of enforcement. Finally, fighting against organized and powerful players involved in the distribution of counterfeit in Brazil proves to be very difficult.

F. India

Regarding trademarks registration, the situation has improved as a result of additional recruitment and various initiatives implemented pre/post India's accession to Madrid Protocol:

- speed of processing new trademark applications, with quicker examination and publication (trademarks can be registered in under 9 months if no objections);
- quicker disposal of abandoned applications leading to greater transparency of the register;
- faster disposal of uncontested oppositions and processing of contested oppositions up to closure of Pleadings but long delays for final hearings.

But this positive situation is counterbalanced by:

- lower quality examination particularly with regard to identifying/citing prior rights (possibly due to the lack of experience of new examiners, purported targets set for accepting/objecting to applications and/or inadequate search tools particularly with regard to device marks). Onus shifts to brand owners to oppose;
- premature refusal of trademark applications without considering all relevant factors including inter alia, transborder reputation, international use, worldwide registrations, acquired distinctiveness, distinction based on goods and services, precedents laid down by Courts, and the arbitrary nature of the mark for the goods/services applied for;
- Considerable backlog of older cases as new filings/oppositions are prioritized, and in processing longstanding trademark renewals leading to uncertainty for brand owners.

Regarding anti-counterfeiting activities and customs enforcement:

- The requirement of submission of bond and bank guarantee (within 3 days) for each individual Customs seizure is a burdensome and costly procedure. It is a requirement that directly and negatively impacts brand owners' ability to join Customs actions. An amendment of the Customs Rules to allow indemnity letters to be issued by the Right Holder (similar to the EU) would be ideal.
- The lack of prescribed timelines for adjudicating Customs Seizures has led to extremely long delays in disposing of cases and the destruction of seized goods. Brand owners often have to wait numerous years (>5) for a final Order of Destruction. Even when an Order of Destruction has been issued, the actual destruction may not take place until several years later.
- Lack of adequate resources/infrastructure to ensure timely and proper disposal/destruction of counterfeit goods. Allocating sufficient resources to dispose of fake goods seized is essential but alternate/environmental disposal methods (recycling, etc) would also be desirable. Currently, storage and destruction costs are borne by the brand owners. Once it is established that an importer has imported counterfeit goods, the cost of storage/destruction should be shifted from the brand owner to the importer.
- As India is a top manufacturing country for counterfeits, seizures on exports would be desirable (currently within Custom's authority, but not exercised).

G. Indonesia

The level of IPR protection has been low in the last 2 years. There is a shift towards e-commerce and a corresponding increase in counterfeiting activities in the online sphere. The local police have shown little interest in conducting raids against counterfeit retailers which are usually small businesses on the basis that these businesses had been badly affected by the pandemic. This can also be linked to a fear of political/elections backlash.

Setting minimum enforcement quota by the police may encourage the police to conduct more raids on behalf of right owners.

H. Malaysia

In view of the Covid-19 pandemic, enforcement in relation to counterfeit products was largely put on hold in 2020 and 2021. However, the Ministry of Domestic Trade and Consumer Affairs (MDTCA) has now resumed raids on a more regular basis regarding counterfeit products.

With a focus on online counterfeiting activities and IP protection, our members highlighted that the main challenges were online marketplaces such as Lazada, Shopee and Carousell and social media platforms such as Facebook and Instagram.

The challenges faced are largely due to the difficulty in tracking down the location and ultimate identity of the online infringers. There is a link for complaint with MDTCA, where they can take action together with the Malaysian Communications and Multimedia Commission to takedown infringing postings or websites. However, this is a new challenge and MDTCA will require time to come up with a suitable action plan for online enforcement. MDTCA is also in discussions with some of the online marketplaces for more effective collaboration and enforcement.

I. Vietnam

In general, Vietnam has made progress in legislative and administrative matters in the past 2 years, but the level of IPR protection remains low. The Covid-19 pandemic has resulted in serious impact on the market. Consumer behaviour has shifted towards e-commerce boosting online counterfeiting activities. The local police are reluctant in conducting raids against retail counterfeiters which are usually small business on the basis that these businesses had been already severely affected by the pandemic. This is evident in District 1 of Ho Chi Minh City.

Over the past two years, more than 90% of IPR related cases have been handled through administrative measures while this is not enough to deter perpetrators. As a result, violations are becoming more and more common, sophisticated and complex. The administrative measure are quickly implemented but remain limited as the sanctions are still low, so they have no deterrent effect.

Vietnam has stepped up its efforts in border enforcement, with an increase in seizures, especially along the Vietnam-China borders. Efforts were made by the Customs to seize counterfeits arriving and leaving the Vietnam borders.

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The civil court actions show no significant improvement as the project to set up a specialized court for intellectual property does not seem to have started yet. This is affecting greatly the rights of IPR holders, especially the right to claim compensation.