



“THE IMPACT OF COUNTERFEITING AND PIRACY ON SMEs: Challenges and Best Practices”

Brussels, 16 June 2008
EUROCHAMBRES' premises: Avenue des Arts 19 A/D, 1000 Brussels

EXECUTIVE SUMMARY

On 16 June 2008, the Transatlantic IPR Collaboration Coalition¹ brought together, for the first time, 20 European and American small and medium size businesses to discuss the impact of counterfeiting and piracy on SMEs. In addition to the companies, delegates from the European Union (EU) including DG Trade and DG Enterprise, as well as representatives from the U.S. Department of Commerce, U.S. Department of Justice and the U.S. Federal Bureau of Investigation (FBI) participated in the roundtable.

The day-long event explored the types of counterfeiting and piracy experienced by the participating SMEs, the impact on their companies and how they are currently managing the problem. Furthermore, participants discussed the effectiveness of current EU and US anti-counterfeiting programs and policies and recommended further actions. Throughout the day, several main themes emerged. These themes are elaborated upon below.

Main Themes

- Most IPR Tools are in Place

Participants were of the opinion that most national IPR tools are in place. However, the complexity and resource demands of the system were significant obstacles for SMEs. For example, proving the validity of an IPR (e.g., patent) was raised as a concern in so far as validity is only established when the IPR is infringed and enforced, not simply through registration. The liability of patent examiners and trademark registrars were also raised as concerns with the system. Therefore, there remain a number of challenges for SMEs that need to be resolved by governments.

- IPR Registration and Management is Essential

It was emphasized that companies must make use of the IPR tools and be prepared to fight to protect their intellectual property. Simply registering or patenting their product or design is not enough. Businesses agreed that protection of intangible assets is not possible without registering their intellectual property rights. IPRs are useful, but one needs to have a system in place to react quickly upon a reported infringement. Therefore, data has to be acquired about shipment, ports of entry, production sites, etc. which is a challenge for smaller companies.

¹ AT Consult, Austria Wirtschaftsservice (AWS); Eurochambres, Austrian Institute for SME Research, U.S. Chamber of Commerce

- Access to Information

Although it was expressed that governments provide all the necessary IP tools, it was perceived that there is not full access to these tools. Generally speaking, being an entrepreneur has become more complex in recent years than it was for example 50 years ago. A globalized market demands intensive engagement from its players. This means that the smaller a business the more likely it is that it cannot access the required information. SMEs believe that public private partnerships (PPP) would be useful in resolving this issue.

- Lack of Resources for IPR

The smaller a business the more resources become a core issue. Companies that are only active in their home markets as well as those that are active globally both must protect their intangible assets. Nevertheless only large enterprises can afford a corporate legal counsel or even a corporate IPR counsel that takes care of all issues in regard to IPR protection and closely cooperates with the respective departments. Small SMEs are therefore most hit by the complexity of IPR protection, because they lack time, money and people to protect their assets.

- Costs of Domestic and/or International IPR Protection

Participants believe that continued pressure on governments to address the high costs of civil enforcement and defense of IPR registration must be applied. For example, some companies were of the opinion that there is a need for greater financial control over 'enforcement service providers' (e.g., lawyers and investigators). Other suggested mechanisms included special judicial measures for SMEs, partial or complete contingency, and pooled litigation insurance. The cost of registering an IPR in the home market is an issue in the EU while excessive litigation to validate a registered patent in the US was cited as growing problems. Enforcement costs are an issue for both the EU and US.

- Time Spent to Register and Enforce IPRs vs. Speed of Counterfeiters

The entire IPR system, either nationally or internationally, was described as too slow. Registration of an IPR that lasts up to three years for trademarks, up to five years for patents, and enforcement that may last up to 10 years simply doesn't serve SMEs. This makes a theoretically well thought out IPR system a toothless and expensive administration. This is compounded when counterfeiters have production and piracy cycles that are much shorter than those of IPR registration. Currently only the electronic registration of Community Designs was pointed out as a time efficient protection that can be acquired within a few weeks. Businesses therefore partly resort to alternative dispute resolution to enforce their rights.

- Priority to Protect Home Market

An international IPR management strategy always begins with the home market. Several of the companies noted that their biggest problem counterfeiting market was their own. EU businesses feel not as safe about their home market as US businesses do. This perception is communicated through the lack of an EU patent and the demand for an EU IPR court. Demands for international IP legislation, e.g., ACTA were mostly mentioned by US companies, whereas EU businesses seem to be busy with getting their home market under control.

- Internationally Enforceable IPR

The demand for a single universal 'legislation' in regard to IPR that can be enforced equally in any country was underlined. An EU Patent, ACTA, cross-border injunctions and the obligatory indication of the respective IPR on the product were suggested steps.

- Customer Relation Maintenance and Supply Chain Control

Customer relations were named as an important informal intangible asset protection mechanism. Good customer relations help avoid (through emotional and moral ties) counterfeited products being bought from competitors. Next to the internet and supply chain control, faithful customers provide the most information on actual counterfeits.

In regard to the supply chain and sourcing partners, businesses asked for a black list of supply chain violators. This could help prevent counterfeiters from acting undetected and inhibit the mobility of infringers.

In regard to the application of technical anti counterfeiting track and trace applications, the present EU companies did not make as much usage of these tools as US companies.

- Accountability for Sourcing from 3rd Countries

The participants noted a 'double faced moral standard' in regard to sourcing products in third countries. Some businesses can't compete anymore without sourcing certain parts or the entire product in low income countries. Sourcing naturally leads to infringement, because technical drawings and data have to be provided, that can be used to offer and produce the goods in question for other entities than the original assignor. Although infringement can happen, this kind of sourcing activity is wanted, but requires accountability for the assignee. Accountability was additionally demanded for those in Europe and the US who request the production of counterfeited goods and then import these to the EU or US.

- High Profile Lobbying against Local Bias in 3rd Countries

High profile lobbying and pressure by governments and public awareness campaigns were mentioned as important methods to fight against local bias and as a parallel means to civil enforcement.

- Advantages and Disadvantages of Internet Sales

Several companies felt that ISPs should be held liable for providing virtual market space for counterfeiters. Apart from customers and trade fairs, the internet is for most companies a primary source of infringement information.