COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

on the functioning of the system set up by
Council Regulation (EEC) No 3842/86
of 1 December 1986 (Counterfeit goods)

Council Regulation (CEE) NO 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods has been in force since 1 January 1988.

This regulation obliges the Commission to report to the European Parliament and the Council after a period of 3 years on the functioning of the system set up. This communication contains the report the Commission has drawn up on the subject.

It reviews this initial period of operation, identifies failings in the system and sets out an initial list of possible remedies to them. A proposal for an amendment to the regulation will be submitted as soon as the conclusion of the GATT Uruguay Round negotiations allows the Commission to assess all aspects requiring the regulation to be amended.

Report from the Commission to the Council and the European Parliament on the functioning of the system set up by Council Regulation (EEC) No 3842/86 of 1 December 1986 (Counterfeit goods)

I. Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods[1] introduces an instrument for protection at frontiers - purely vis-à-vis third countries - whose role is to complement mechanisms for the defence of trade mark rights within each M.S. It gives the owner of a trade mark the possibility, on request, of obtaining from customs the suspension for a specified period of the release of goods entered for free circulation, in order to allow the owner to bring the matter before an authority (normally the courts) competent to take a substantive decision on whether there has been an infringement of the trade mark in question.

The provisions of the Regulation concern in particular :

- the activation of the mechanism - how the trade mark owner's application is treated (Title III)
- the conditions governing action by the customs authorities and by the authority competent to decide on the case (Title IV)
- the fate of goods found to be counterfeit goods (Title V).

Article 11 obliges Member States to communicate all relevant information on the application of this Regulation to the Commission and obliges the Commission to make a report to the European Parliament and the Council on the operation of the system thereby set up within three years following the entry into force of the Regulation. This is the purpose of this report.

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(1) OJ L 357 of 18.12.1986

II. Implementation of Regulation (EEC) No 3842/86

Although directly applicable, Regulation No 3842/86 could not become operational without organisational measures of a procedural nature being taken by Governments or national Parliaments. MSs had a year between publication of the text and its entry in force on 1 January 1988 and most of them adopted the provisions needed to make it operative in practice. However, two MSs were not ready on the date laid down, Ireland which made it operative from 10 May 1990 and Italy which still today has only partially completed the necessary internal procedures in this regard. The Commission has initiated proceedings under Article 169 of the EEC Treaty.

III. Figures on the operation of the system

The system set up by the Council lays down provisions allowing the practical application of the device in MSs to be monitored. On the basis of its Regulation (EEC) No. 3077/87 of 14 October 1987(2), the Commission is informed :

(a) at the end of each year, of all the applications made in MSs, whether accepted or not ;

(b) periodically, of the cases in which release of the goods is suspended and how these procedures develop later.

The Commission communicates this information to the other Member States.

(2) OJ L 291 of 15.10.1987

The information received up to December 1990 yields the following results :

- Release of goods entered for free circulation was suspended in 735 cases in the Community. These cases are divided between the following MSs :

Germany	(148 cases)
Spain	(9 cases)
France	(126 cases)
United Kingdom	(452 cases)

In the following MSs no request has ever been accepted by the competent authorities :

- Greece
- Ireland
- Luxembourg
- The Netherlands
- Portugal

As regards these countries, the Commission has received information from interested circles according to which attempts to make applications in Greece and Portugal have failed for reasons due to the system applied. Moreover, in Denmark considerable difficulties were encountered by one owner before his application was finally accepted.

IV. Patterns of trade found by the system

Besides the finding that the "counterfeit goods" regulation system is in practice clearly only partially applied in the Community, the following assessment can be made of its implementation :

- The great majority of decisions to suspend release (at least 80%) taken by the customs authorities concern importations by travellers or sent by post. The quantities imported are in all cases relatively small. On the other hand, larger commercial scale operations (several hundred or thousands of units) are relatively rare (usually less than 5%). The fact that in Spain all the suspension decisions accounted for (9) concern only commercial operations leads one to suppose that there is currently no control there of travellers' luggage or of postal consignments.

- The products concerned by the suspensions are consumer goods (above all those of a prestige trade mark (textiles, clocks and watches, leather goods, perfumes, kitchen equipment, spare parts, toys)). The owners of the trade marks in question are European, not necessarily from the Community. An American request was recorded in one MS.

- In certain cases, there were importations of products without a trade mark and the importation of the trade mark emblems ("logos") was done separately so that the counterfeiting was intended to be performed only after the release for free circulation in the EEC.
  The adoption of such a strategy by producers of counterfeit goods demonstrates a certain efficiency of the system in those EEC MSs where it is really applied. It is to be feared that this "division of labour" in counterfeiting will be of growing importance in the Community in the future.

V. Structural problems affecting the operation of the system

A system of customs intervention such as that in Council Regulation (EEC) No 3842/86 must disturb the interests of legitimate international trade as little as possible. Apart from the obligation on the trade mark owner to provide a security to cover any harm which might be caused to legitimate trade, the balance of the system depends essentially on the direct access of the interested parties to "the authority competent to take a substantive decision", normally the courts. This control of the legality of the suspension of the release of goods declared for free circulation only being a posteriori, the operational value of the system depends upon the fact that in the first stage (for 10 days) the action of the owner of the trade mark is privileged and once this period is over, the goods are either released or else the case will have been taken before a court. The Commission has not received any complaints that this means of proceeding causes excessive harm to the interests of legitimate trade.

However, some MSs have felt, beyond that, the need to introduce a control prior to action by customs by providing for a special authority to decide whether or not the application should be accepted.

Such a procedure, which is authorized by the current Article 3(4) of the Regulation has appeared as an obstacle to the effective application of the system set up by it by the single fact that it requires additional action by the owner in order to activate the operation of the mechanism. Thus, in the MSs with such a system (decision by the courts in Belgium, Greece and Denmark, by an administrative authority in the Netherlands), no application has been accepted except in Denmark, where it was only done so after prolonged legal battles, and in Belgium where a single request has recently been notified.

insofar as applications have to be made to the courts, in certain MSs these have tended to consider the applications in the light of the criteria applicable to the admissibility of legal proceedings under civil law. Actually, applications have been rejected because of the nere fact that the trade mark owner making the application is not in a position to name the person of the importer as a litigant. However, the identity of this person is not normally known to the owner until later, i.e. when he is informed of the suspension of release pursuant to the third sentence of Article 5(1).

On the basis of this experience, the Commission is convinced on the one hand that the courts are not the appropriate bodies to decide on the application, and on the other hand that speedy action, which is indispensable for the efficiency of the system, is only possible if the trade mark owner can make his application directly to the customs authority. Moreover, in a certain number of cases it has proved that the customs authorities were not in a position to suspend the release of counterfeit goods being imported because the outside authority to which the application was referred was taking time to decide.

VI. Interpretation of the provisions of Regulation No 3842/86 depriving it of its utility

1. Apart from the problems arising from the way procedures are organised in certain MSs and the operational mechanisms of certain authorities, in practice the system can also suffer paralysing effects if too great a demand is made as regards the amount of information to be provided by the trade mark owner to activate the system. Given the still sporadic nature of its application in the Community, the Commission has reason to think that such administrative practices do exist.

Thus it seems excessive to ask the trade mark owner to show (as well possibly as the name of the person of the importer) the place and/or time of importations suspected of involving counterfeit goods, information which normally he does not have. The Commission is of the opinion that in its current form concerning only the protection of trade marks, Council Regulation (EEC) No 3842/86 introduces a real system for finding counterfeit goods at the external frontiers of the Community. In fact, if this was not so, the limitation to a specified period of action by customs pursuant to the second subparagraph of Article 3(3) of Council Regulation (EEC) No 3842/86 would not have any sense.

The Commission is moreover of the opinion that such a search system at the frontier has certain advantages in itself, independent of the possibility of setting in motion the processes of criminal law with regard to counterfeit goods discovered after their entry into the distribution circuit of a Member State. Thus the explanation given by the Netherlands authorities with regard to the lack of requests pursuant to Article 3 of Regulation No 3842/86, i.e. that trade mark owners are refusing of their own volition to use the measures in the Community Regulation, is not entirely convincing and will have to be examined in greater depth.

It is moreover clear that a search system such as that conceived by Community legislators implies substantial efforts at administrative level to ensure that the system is effective.

This does not exclude the trade mark owner for his part having to give maximum cooperation to the customs authorities to whom he is applying and having to give them all pertinent information at his disposal (Art. 3(2)).

2. Moreover, a major obstacle to the proper functioning of the system in practice arises from the fact that the "territorial" competence of the authority which must act may be too limited. Such a situation is such as to multiply the difficulties encountered by trade mark owners in taking the measures enabling them to obtain effective protection at Community frontiers. If it is already laborious - for want of the existence of the common structures of a Community customs administration - to make an application in each of the 12 MSs (the possibilities currently being restricted to 11) in order to obtain Community scale protection, the fact that in a single MS several, even dozens of applications have to be made to protect a trade mark against importations of counterfeit goods just in that country is something which could put people off using the system.

3. Finally, the requirement for a fee for action by customs appears justifiable in the context of the system insofar as substantial efforts are made at administrative level to ensure its effective operation. Also Regulation (EEC) No 3842/86 provides (Art.3(2), last subparagraph) for the possibility of requiring such fees and several MSs have taken up this possibility. It goes without saying that such fees must remain in proportion to the interest of trade mark owners in "buying" protection at frontiers. If the price is too high, particularly when a fee comes on top of a situation such as that described in the preceding paragraph, the resultant effect is inevitably to put people off using the system.

VII. Possible measures to remedy the main failings

1. Application of Regulation (EEC) No 3842/86 in all MSs

The Commission is of the opinion that given the stage of preparation of legislation in the Member State concerned, proceedings other than those taken under Article 169 of the EEC Treaty are unnecessary.

2. Structural problems affecting the functioning of the system

Taking into account what has been described in V above, the solution could consist of an amendment to Article 3 of Regulation (EEC) No 3842/86 providing that the customs authority is in all cases competent to decide on the application lodged by the trade mark owner. As regards the time when such a proposal for an amendment along these lines could usefully be submitted to the Council and the European Parliament, it would be appropriate to envisage a global revision of the Regulation in question, in view of a forthcoming agreement in the framework of the Uruguay Round.

VIII. Other changes which have appeared desirable

1. Definition of "Counterfeit goods" within the meaning of Article 1(2)(a)

This definition should be extended and include not only "goods bearing without authorization a trade mark" but also the trade mark emblems (logos) themselves and packages and packing bearing the trade marks of the products to which they refer.

2. Definition of the term "entered for free circulation" (Art.3(1))

It would seem useful to specify that declarations may be made in writing or orally, in order to leave no doubt as to the fact that all importations entered for free circulation are covered by the Regulation.

3. Importations of a non-commercial nature

Trade mark owners' interests have expressed themselves in favour of abolishing the exclusion clause contained in Article 9 of Regulation (EEC) No 3842/86 concerning of travellers and small consignments of a non-commercial nature.

The Commission recognizes the possibility of what might be called "trafficking by ants", but it is of the opinion that the principle according to which the protection of trade marks is limited to transactions of a commercial nature remains valid and it finds confirmation in the context of the draft agreement on intellectual property rights drawn up as part of the Uruguay Round.

Hence, in defining the rules to be observed by the individual consumer for importations intended for his personal requirements the parallel established in Article 9 with the rules concerning duty reliefs (Council Regulation (EEC) No 918/83) applies quite naturally and should not be called into question. If those rules include notions with a certain elasticity such as "personal use" or "non-commercial nature", it is nonetheless true that they could only be replaced by stricter provisions at the cost of a loss of flexibility, which is indispensable in application at local level in order to deal with the large variety of situations in practice.

The Commission is therefore of the opinion that Article 9 should be retained in its present form except to delete from it the reference to the rules concerning the standard rate of duty specified in the Preliminary Provisions of the Common Customs Tariff, which risks giving rise to misunderstandings.

The fact that the statistics show (see IV above) that a relatively high proportion of cases of suspension of release for free circulation concerns products contained in travellers' luggage and postal consignments should also reassure trade mark owners that they are not deprived of protection in this area. However, to avoid the traveller returning from a third country into the Community being confronted too abruptly by the rigour of the provisions of the fight against counterfeit goods, measures should be taken to give greater publicity to these rules. The traveller should be clearly informed in Community ports and airports at the moment of his departure.

IX. Conclusions

Apart from the implementation of Council Regulation (EEC) No 3842/86 which has not yet been achieved, a certain number of adjustments should be made in particular to remedy a structural problem. The common structures of a provision which was intended as a regulatory framework should be strengthened. An important step along this road will be the introduction of a Community trade mark since it will dispense with proving that the trade mark is validly registered in each MS where the trade mark owner wants to lodge an application and it will thus simplify administrative formalities. Moreover, this consolidation will remain incomplete so long as the conviction that intellectual property constitutes a common patrimony which should be protected is not generally recognized in the Community.

If the Regulation (EEC) No 3842/86 system as it currently operates in the Community can be substantially improved - the results it has produced may be considered modest - the objective limits to which by its nature any system of control at frontiers is subject should not be lost sight of. Taking into account the volume of the EEC's external trade - the value of importations into the EEC is around 500 thousand million ecus a year - customs control can only be done by spot checks. Although it can produce some interesting results, it will never ensure complete protection. Frontier control can therefore only be one means among many in the fight against counterfeit goods, the full impact of an efficient policy in this area having also to come from greater international discipline effective at production level and stricter supervision of the distribution network within each Member State.