

Insights

EUROPEAN AND US REGULATORS CONSIDER EFFORTS TO COMBAT COUNTERFEIT GOODS

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Reducing sources of counterfeit or grey market goods is a perennial challenge for every brand owner. Recent parallel developments in the EU and the US show how legislators are tackling the issue of counterfeit goods on online marketplaces. These efforts must be seen against a landscape of increasing use of online marketplaces by commercial scale counterfeiters and pirates. To give some context to the scale of the problem, headline statistics from the OECD (in a March 2019 report co-produced with the EU's Intellectual Property Office) put trade in counterfeit and pirated goods at a proportion of 3.3% of global trade, based on analysis of 2016 customs data. This report also put the value of imported fake goods worldwide based on 2016 customs seizure data at US\$509 billion, up from US\$461 billion in 2013 (2.5% of world trade). From the EU's trade perspective, the OECD report concluded that counterfeit trade represented 6.8% of imports from non-EU countries, up from 5% in 2013 (and these figures do not include domestically produced and consumed fake goods, or pirated products being distributed via the Internet).

The OECD's report identified that the majority of fake goods picked up in customs checks originate in mainland China and Hong Kong SAR. Other major points of origin include the United Arab Emirates, Turkey, Singapore, Thailand and India. Along with insufficient screening of small parcels, other areas where policy gaps are facilitating counterfeit trade are inconsistent penalties on traffickers and the special rules governing free trade zones. Past OECD-EUIPO analysis has shown that free trade zones – where economic activity is driven by reduced taxes, customs controls and lighter regulation – can unintentionally facilitate counterfeit trade. There are clear economic harms suffered by IP rights-holders, both in terms of direct sales and revenue losses as well as damage to a rights-holder's reputation sustained from the circulation of inferior counterfeit products. The economic effect is also broader, as it can lead to direct and indirect jobs losses in the EU and government revenue losses. There are also deep concerns about the revenues from pirated and counterfeit goods supporting global organised crime. Allied to this, there is a clear link between counterfeiting, piracy and cybercrime where copyright protected content is offered and distributed through online markets that may also be used for committing cybercrimes, including distribution of malware.

The European Commission also remains very concerned to protect consumers from the effects of large scale counterfeiting and piracy. Ahead of implementation of the proposed EU consumer protection directive (currently due to be in force in May 2022 and which mandates significantly higher fines for breach of consumer protection legislation), the EU Commission has launched a [public consultation](#) to identify major online and physical marketplaces of counterfeit goods located outside the EU, likely to be accessible to, and used by, EU consumers. The Commission has a clear agenda focusing on risks posed to consumers from counterfeit or pirated goods offered on online marketplaces. The Commission also sees the list as a useful tool to raise consumer awareness of the environmental, product safety and other risks of purchasing on these marketplaces. The OECD's 2019 report identified fakes of items like medical supplies, car parts, toys, food and cosmetics brands and electrical goods as carrying a range of significant health and safety risks. Examples include ineffective prescription drugs, unsafe dental filling materials, fire hazards from poorly wired electronic goods and sub-standard chemicals in lipsticks and baby formula.

The consultation is therefore assessing: (i) whether any of the marketplaces listed in its 2018 Counterfeit and Piracy Watch List have taken measures to curb IPR infringements; and (ii) measures and enforcement action taken by national authorities in relation to these marketplaces. The consultation exercise will allow the Commission to update the details of the marketplace operators and service providers appearing in the first Counterfeit and Piracy Watch List of 2018. It is targeting publication of an updated list towards the end of 2020.

The survey is open for written responses until 12 May 2020. Stakeholders wishing to participate should complete the survey identifying areas of concern and any proposals which would improve their abilities to enforce their rights against these types of marketplace. Marketplace operators and service providers appearing in the first Counterfeit and Piracy Watch List of 2018 are also invited to submit written contributions in which they present the actions they have taken to address IP infringements on their platforms or while providing their services.

Whilst the Watch List is not an exhaustive list of offending marketplaces and does not make official findings of non-compliance with EU law, it is a useful summary of concerns raised by EU businesses. The Commission has produced a separate 2018 paper on IP enforcement practices in non-EU countries which discusses some of the issues you may encounter when enforcing IP rights in these countries.

Unlike the US, it has already been established in the EU that online marketplaces can be liable for trade mark infringement where counterfeit goods are offered for sale on the marketplace by a third party. A bi-partisan bill was therefore presented to the US House of Representatives last week: the "Stopping Harmful Offers on Platforms by Screening Against Fakes in E-Commerce" – or SHOP SAFE – Act of 2020. This aims to hold online marketplaces liable for the sale of counterfeit products, by holding the marketplaces liable for trade mark infringement when a third-party sells a counterfeit product "that poses a risk to consumer health or safety and that platform does not follow certain best practices." Those best practices will include "vetting sellers to ensure their

legitimacy, removing counterfeit listings, and removing sellers who repeatedly sell counterfeits,” according to a release from the U.S. House Committee on the Judiciary. It aims to establish contributory liability for online marketplaces if they fail to take steps to prevent the continued sales of counterfeits by third party sellers. It remains to be seen whether the lobbying efforts of large US online marketplaces will lead to the liability provisions being weakened during the passage of the Bill.

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