TIE comments on the European Commission’s report on the enforcement of intellectual property rights

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Introduction

Toy Industries of Europe (TIE) welcomes the opportunity to comment on the European Commission’s report evaluating the impact of Directive 2004/48/EC on the enforcement of intellectual property rights (“the Directive”). In this document, we focus on parasitic copying and other areas in need of clarification mentioned in the Commission’s report.

TIE values the ongoing efforts of the European Commission in relation to the protection and enforcement of intellectual property rights (IPR) in Europe and beyond. TIE and its members also welcome the creation of the European Observatory on Counterfeiting and Piracy, the Memorandum of Understanding on the sale of counterfeit goods over the internet and the inclusion of IPR chapters in trade agreements. TIE looks forward to the results of the study on IPR and unfair competition commissioned by the European Commission’s Directorate-General for Internal Market and Services. TIE especially welcomes the inclusion of parasitic copying and the protection of trade secrets in the scope of this study.

TIE is particularly concerned that counterfeit products can compromise the safety of children. It is precisely because of the specific nature of our sector that TIE has always been committed to ensuring that the fight against counterfeiting remains a political priority in the EU. TIE contributed to the preparation of the Enforcement Directive, which was a considerable improvement to the then-existing legal framework. As the European Commission’s report correctly states, effective enforcement of the Enforcement Directive is imperative. TIE therefore welcomes the European Commission’s evaluation of the Enforcement Directive in the Member States and fully supports the Commission’s efforts to adapt this Directive to the current and future challenges which European intellectual property rights owners face.

The toy sector and intellectual property rights

Counterfeiting is an ever-growing problem for the European toy industry. The specific characteristics of the toy sector make it very susceptible to counterfeiting: toys are quite easy to copy and it may be difficult to distinguish genuine products from fake copies; it is often difficult to enforce IP rights in the regions in which toys are manufactured; due to the size of toys, counterfeit products are easily transported via postal services making them difficult to detect; toys are also subject to different types of IP infringements, from the direct copy to more subtle copies; and 80% of the toy sector is composed of SMEs which often lack the expertise and resources to protect their IP rights.

Another important characteristic of the toy industry is that the end-users of our products are children. Toy manufacturers constantly research and develop new types of toys to provide the highest quality product for child development. Counterfeit toys do not necessarily comply with the essential safety standards which have been developed for the specific safety needs of children (for example those relating to small parts, toxic substances and hazardous materials). Counterfeiters are driven by high-volume production for rapid and easy money. Safety concerns have no place in their strategy. Illegal products often contravene all of the
stringent safety standards to which reputable toy companies are proud to adhere. As such, fake toys undermine the efforts of both regulators and business to guarantee a safe play experience for children.

Thus, TIE is particularly concerned that counterfeit toys can endanger the health and safety of European children as counterfeiters often infringe product safety legislation. This highlights the importance of effective IPR enforcement.

It is difficult to determine the size of this problem for the toy sector. Estimates suggest that up to 10% of toys sold in Europe could be counterfeit. In 2009, custom administrations in the European Union (EU) seized 6,593,644 toys that infringed intellectual property rights.\(^1\) Unfortunately, we know that these seizures represent only a fraction of the problem. Many counterfeit toys continue to pass through customs and enter the EU market.

Counterfeit toys not only hamper innovation and creativity but also represent a serious threat for jobs, competitiveness and economic growth in the EU.

**Parasitic copying**

Parasitic copying represents a growing problem in Europe for both consumers and business. While the Directive makes reference to this problem, it does not really address the issue. TIE acknowledges that the purpose of the Directive is to address infringements of existing intellectual property rights. However, like many other sectors, TIE would welcome a clear legal framework encompassing parasitic copying in order to provide more legal certainty in Europe.

This phenomenon is of serious concern to the European toy industry. The results of a 2007 study conducted by the European Commission’s Directorate-General for Enterprise and Industry on the effects of counterfeiting on SMEs found that parasitic copying was the second source of concern for European SMEs regarding IPR infringement, following design infringement and before trademark infringements.\(^2\) As noted in the Commission’s report, such infringements are on the rise.

Parasitic copies are very similar to the original products but are intentionally developed in such a way that they avoid directly infringing any trademarks, design rights or copyrights. Parasitic copiers closely imitate many, but not necessarily all, of the distinctive marketing properties of a brand, for example the colour and shape of the packaging, the layout and design of the label, the concept and style of the advertising and promotion, and the design of the product itself. The end result conveys a similar appearance to the original product which means that some consumers may believe that they are buying a high-quality original. Parasitic copies adversely affect investment in innovation. Copiers do not incur costs related to new product development, novel packaging development, design decisions, and advertising that are borne by brand owners. Needless to say that complying with European safety standards is not on counterfeiters’ priority list.

Thus, parasitic copiers not only free-ride on investments made by the European toy sector, but they can also prove to be a danger to the health and safety of children.

As the Commission rightly points out in its Report on the application of the Directive, **clarifications are needed to avoid certain provisions in the Directive being understood differently in the Member States, which leads to different interpretations and application in practice. It is also necessary to bring legal certainty to ensure a harmonised approach in Europe to dealing with parasitic copying.** TIE agrees that it is

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2 Technopolis, Effects of counterfeiting on EU SMEs and a review of various public and private IPR enforcement initiatives and resources, 31 August 2007, p.61.
essential to further assess phenomena such as parasitic copying and to include a minimum list of the IPR covered in the Directive. In this regard, the wording of the Commission’s statement on Article 2 of the Enforcement Directive could be included in the text of a future revision of the Directive.³

There is no uniform rule or EU-wide legislation regarding parasitic copying. In some jurisdictions, parasitic copying is an infringement, in others, it is not. The result of this piecemeal approach is that a branded manufacturer may be able to bring proceedings against a parasitic copier in one Member State but is unable to act against the same parasitic copy in another or, if he can take action in both, he may receive two completely contradictory judgments. Many copiers take advantage of existing national disparities in the knowledge that the chances of being prosecuted are almost nonexistent.

In recent years, the EU has taken important steps to combat fake and counterfeit products. TIE would strongly encourage similar efforts to fight parasitic copying. TIE is concerned that stricter IPR legislation causes infringers to seek smart alternatives to circumvent this legislation, which could lead to an increase of the parasitic copying phenomenon. We need to secure a harmonised system in Europe that protects IPR in their broadest sense.

Cost of destruction
TIE regrets that the cost of destruction of infringing goods and the related costs of storage are often borne by the right holders as the costs very often cannot be successfully claimed back from the infringer. TIE agrees that the costs of destruction of infringing goods should be imposed by the court directly on the unsuccessful party.

Legal costs
Even when litigation can be brought against infringers, considerable obstacles remain for right owners. The high cost of going to court, the length of such procedures – which are likely to last longer than the shelf life of the product concerned – and the seasonal nature of our business, make legal action prohibitively expensive. As the Commission notes, “the reimbursement of legal costs and other expenses in a successful litigation usually remains far below the actual legal costs incurred”.

SMEs, which make up 80% of the European toy industry, do not have the necessary resources and expertise to enforce their IPR. The prohibitive cost of legal proceedings, the burden of proof borne by brand owners and the costs of storage and destruction often prevent toy manufacturers, particularly SMEs, from taking action against infringers.

Burden of proof
The burden of proof must be reversed so that right holders do not have to prove that their rights have been infringed. Suspected infringers should have to provide evidence that they are not violating any IPR but promote their products on a lawful basis.

Criminal sanctions
TIE believes that at least a minimum level of harmonisation in criminal law is necessary to combat infringements of IPR. A strategy that includes strong deterrent measures is necessary to discourage infringers.

Internet as platform for sales of counterfeited goods
While the internet has provided brand owners with a new way to market their products, it has also offered counterfeiters a selling platform for goods infringing IPR. TIE welcomes the European Commission’s intention

to reassess the Directive in view of the advances in the digital environment. This said, we do not agree with the statement in the Staff Working Document (page 15) that measures that have been applied “have significantly contributed towards the elimination of counterfeiting on the internet”, which is in contradiction to the findings of the Report and Staff Working Document. TIE believes that much work remains to be done to eliminate counterfeiting on the internet.

Conclusion
TIE welcomes the ongoing efforts of the European Commission to protect and enforce IPR in Europe and third countries.

TIE supports the European Commission’s efforts to address issues mentioned in the Report on the impact of the Enforcement Directive, in particular:

- whether parasitic copying is covered by the Directive should be clarified
- the differing interpretation and practical application of the Directive need to be addressed
- the burden of proof should lie with the infringers
- the costs of storage and destruction should be borne by the infringers
- prohibitive legal costs must be addressed
- strong deterrent measures are necessary to discourage infringers

A harmonised system that protects intellectual property rights in their broadest sense is needed to ensure the proper functioning of the internal market.

About TIE
Toy Industries of Europe (TIE) is a trade association for the European toy industry, which comprises over 25% of the total world toy market. The toy industry is highly international and is one of the most dynamic business sectors in Europe. Around 80% of the sector is composed of small and medium sized enterprises (SMEs) which have less than 50 employees. Members of TIE include corporate companies as well as national associations from Bulgaria, France, Germany, Italy, the Netherlands, Spain, Sweden, the UK and the Nordic region. TIE membership is open to both corporate companies with a presence in Europe and national associations from European Union Member States (including candidate countries).