

Guidelines Laid Down by the European Union Law for Regulation of the Fight against Counterfeiting by Means of National Criminal Law

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Abstract

The immense amounts of counterfeiting are faced in the modern world, this causes direct damage for the holders of intellectual property rights, users and the European Union market, also it is the area for development of the organized crime. Uncertainty of criminalized infringements is a powerful incentive for it.

The differences of national criminal mechanisms of the Member States of the European Union not only undermine the operation of the internal market of the European Union, they also make it difficult to combat counterfeiting and piracy. In addition to the economic and social consequences, counterfeiting and piracy also pose problems for consumer protection, particularly when health and safety are at stake. Increasing use of the Internet enables pirated products to be distributed instantly. Finally, this phenomenon appears to be increasingly linked to organised crime.

Combating this phenomenon is therefore of vital importance for the European Union. Counterfeiting has become the lucrative activity in the same way as other large-scale criminal activities such as drug trafficking. There are high potential profits to be made without risk of serious legal penalties.³

One aspect of this problem is analyzed in this article, this aspect is applicability of the European Union legislature and the legislation, which is applied by the institutions of the European Union in their activities, in the national law of the Member States for the effective legal fight against counterfeit.

Keywords: *Trademarks, counterfeiting, criminal enforcement, intellectual property, organized crime.*

1. The counterfeit problem in the European Union and its Member States

The counterfeiting of the products not only violates the intellectual property of the holders of the trademarks, it also violates consumer rights and harms the economy, the

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³ Amended proposal for a Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights [2005] Brussels, 26.4.2006COM(2006) 168 final], p. 2

reliability and profitability of the European Union's market, counterfeiting of some products can induce harmful effects on human health and life. In some cases, it is the niche for laundering of the money derived from crime. With the spread of international trade through such trading platforms in cyberspace as "eBay Inc", "Amazon.com, Inc." and "Alibaba.com", etc. the identification and security of reliability of goods becomes even more complicated, also the problem is faced, when traders resell goods that are intended for another market without the trademark owner's consent or when there is the owner's prohibition in order to achieve the cheaper cost (for example, sale of Apple products intended for the market of the United States of America (hereinafter - USA) in the European Union (hereinafter - EU) when the difference of retail prices reaches 30-40 per cent).

Currently there is no purposefully adopted legislation of the European Union regarding regulation of criminal liability for criminal offenses against intellectual property inter alia trademarks or the legislation, establishing the criteria for criminalization of these offences, it is only fragmentarily specified in the legislation that such criminal liability must exist.

Criminal liability for industrial property rights violations inter alia counterfeiting is not widely analyzed in the scientific doctrine. The criminological policy regarding this issue and some issues of substantive law in the area of intellectual property protection criminalization were analyzed in the collective monograph "Criminal Liability for Intellectual Property (Rights) Violations" issued in 2012⁴. The individual aspects of criminal liability for criminal offenses against intellectual property ("commercial scale") were analyzed by A. Adam - *"What is 'Commercial Scale'? Critical Analysis of the Decision of World Trade Organisation" No WT/DS362/R in the article of*⁵ P. Sugden *"How Long is a Piece of String? 'The Meaning of 'Commercial Scale' in Copyright Piracy"*⁶, but just reviewing the current situation in the copyright context without proposing any possible solutions.

The purpose of this article is to analyse the European Union legal acts, their projects and the legal acts related to application of criminal liability for counterfeiting, which are applied by the European Union, using the systematic, logical method, the method of document analysis and the comparative research method. Also, in the light of the results of the investigation, to present criteria or at least some guidance for application in the national law of the Member States while criminalizing the counterfeiting and offences related to the counterfeiting.

2. Intellectual property protection theories and their influence to legal acts of the European Union and their applicability in the Member States in the area of criminalization of counterfeiting

It is necessary to discuss theories reasoning the protection of intellectual property in order to set properly the content of the legal acts of the European Union from a

⁴ Geiger, Ch. *Criminal Enforcement of Intellectual Property: A Handbook of Contemporary Research (Research Handbooks in Intellectual Property)*. United Kingdom: MPG Books group, 2012.

⁵ Adam, A. What is "Commercial Scale"? A Critical Analysis of the WTO Panel Decision in WT/DS362/R. Sweet & Maxwell and its Contributors. 2011, 33(6): 342-348

⁶ Sugden P., *How Long is a Piece of String? The Meaning of "Commercial Scale" in Copyright Piracy*. European Intellectual Property Review. 2009, 31(4): 202-212

teleological point of view. Among theories the utilitarianism (economic⁷) theory and the labour (natural rights⁸) theory are significant and exclusive to the criminal law of the European Union because the underlying provisions of these theories will help to determine to what extent the infringements of intellectual property should be criminalized, to what problems the protection of intellectual property from counterfeiting at criminal level is directed at.

With regard to the utilitarianism (or economic) theories, it should be noted that *“[...] the approach to intellectual property rights, as the legal instrument by which the legislator aims to ensure the greatest social benefit, unites these theories.”*⁹ According to the utilitarianism theory postulates¹⁰, the intellectual property should be regarded as the result of positive law instead of natural law. It is the cause of the discretion of the legislator to establish new, restrict or eliminate existing intellectual property rights, because the purpose of the intellectual property legal regulation is the general benefit instead of interests of separate groups.

It should be noted that the utilitarianism theory arguments are used nowadays¹¹, for example, it is specified in Article 7 of Agreement on Trade-Related Aspects of Intellectual Property Rights, which is Annex (1C) of the Agreement (Convention)¹², establishing the World Trade Organisation of 1994 (hereinafter, and - the TRIPS Agreement) to which the European Union joined, that the protection and ensuring of Intellectual Property Rights should contribute to the promotion of technological innovation and technology transfer and distribution, provide mutual benefits for developers and consumers of technological knowledge in such a way, which would encourage social and economic well-being and balance the rights and obligations; *in part 2 of Article 8* it is specified that in order to prevent misuse of the rights of intellectual property by the right holders or the practice, which unduly restricts trade or has a negative impact on international technology transfer, the appropriate measures may be required provided that they would comply with the provisions of this EU Treaty. The obvious priority to the public interest - social wellbeing can be seen from these provisions of the TRIPS Agreement. Currently the most highlighted arguments of the utilitarianism theory showed in the form of economic analysis of intellectual property¹³. Trademark protection is justified regarding the aim to reduce costs for consumers while choosing the product and the encouragement of investments in the quality of the goods.¹⁴

⁷ Kiškis, M. Doctrines of intellectual property rights, Teisė. 2009; 73: 24 – 37

⁸ *Ibid*

⁹ Birštonas, R., *et al. Intellectual property rights*. Vilnius Center of Registers, 2010, Chapter 1

¹⁰ The utilitarianism theory postulates were revealed in “Antigon” by Sophocles, in the situation of Creon, in the Venetian statute of 1474, the Statute of Anne of 1710 with the title “*An Act for the Encouragement of Learning <...>*”, Section 8 of Article 1 of the US constitution of 1790 which obligated the Congress “*promote the Progress of Science and useful Arts*”.

¹¹ Birštonas, R., *op cit*, Chapter 1

¹² Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, UNTS. 299, 33 ILM 1197 (1994) [TRIPS Agreement].

¹³ For more information on the economic analysis of intellectual property and the detailed bibliography of this theme, see: Menell P. S. *Intellectual Property: General Theories* //Ed. B. Bouckaert, G. De Geest, *Encyclopedia of Law and Economics*, Cheltenham, 2000. Vol. II

¹⁴ Birštonas, R., *op cit*, Chapter 1

So, it can be seen, that the basic international act, which the European Union follows relating to the matter - the TRIPS Agreement, which notionally governs protection of objects of intellectual property rights at criminal level (analysis below) and influences the national law of the Member States, based on the provisions of the utilitarianism theory. In effect intellectual property rights related to commerce are positive, and the purpose of the protection is the universal social benefit, the public interest. However, it should be stressed that different theories can interact with each other. The opinion of the authors should be accepted, who point out that the protection of intellectual property must exist, however, it cannot be regulated too strictly because it may have negative consequences for creation of new objects protected according to the intellectual property right and for improvement of the existing objects¹⁵. Therefore it is necessary to strive that the harmonious system of intellectual property protection, which would be able to protect all participants of the market of intellectual property, would be created without discrimination.

The labour or natural rights theory is the opposite of the utilitarianism theory, the essence of this theory is that the person who has created a specific result using his intellectual work, has the natural right to it, and individual or group interests instead of the public interest are in the centre of attention. The "pure" theory is not compatible with the variety of intellectual property objects, specific features of their operation, and differences in the concept of ownership.

The intellectual property influences the society excessively so absolute rights should not be given to the individuals. The latter influence depends on the nature and purpose of the object, in one case, these objects are related to art and culture, in the other case, these objects are related to health, safety and progress of the society. I. Newton pointed out in the letter to R. Hooke on 5th February 1675 that the development of progress (including Newton's law of gravity) is created "*standing on the shoulders of giants*", i.e. on the basis of the intellectual products, created by other people.¹⁶ So, regarding the intellectual property, it may not always be appropriate to provide strict regulation because it may have a negative impact on creation of the intellectual property objects, i.e. stop their development.

It is worth noting that the World Trade Organisation distinguishes two reasons of intellectual property regulation¹⁷. The first reason is the necessity for the legal formalisation of the dependence of property rights and moral rights of objects to the authors (the right to their own creative intellectual property result). The second reason is to ensure the spread of results of creation, intellectual activities, their use, promotion of fair trade in order to achieve social - economic progress. So, the World Trade Organisation bases the intellectual property protection on work and utilitarianism theories and it follows from the above that TRIPS and other law acts related to the mechanisms of intellectual property protection should be applied in such way that the

¹⁵ The Agreement on Trade-Related Aspects of Intellectual Property Rights (the "TRIPS Agreement") is Annex (1C) of the Agreement establishing the World Trade Organisation, so, according to the opinion of the authors, it should be interpreted in accordance with the policy of the World Intellectual Property Organization.

¹⁶ Vaver, D. *Intellectual Property Rights – Critical Concepts in Law*. reik. 5 dalis. United Kingdom: MPG Books group, 2006, p. 356

¹⁷ World Intellectual property organization Understanding Industrial property. WIPO Publication [interaktyvus] No. 895(E), Switzerland [žiūrėta 2015-04-27] http://www.wipo.int/edocs/pubdocs/en/interp/895/wipo_pub_895.pdf, p. 4

balance would be maintained between the owner of intellectual property rights, users (and possibly others) and the offender, selecting the type of liability (civil, administrative, criminal liability) for the offender.

3. The European Union legal acts related to the fight against counterfeiting at criminal law level

Protection of industrial property rights *inter alia* protection from counterfeiting is provided in international and regional legal acts, which are used in activities of the European Union law.

The Paris Convention¹⁸ of 20th March 1883 can be named the beginning of modern industrial property per se protection of trademarks. The important document of the intellectual property protection is the Charter of Fundamental Rights of the European Union¹⁹, which became obligatory while applying the European Union legal acts²⁰ from entry into force of the Lisbon treaty. It is imperatively stated in Part 2 of Article 17 of the Charter of Fundamental Rights of the European Union that intellectual property must be protected.

Criminal liability for intellectual property violations in Europe raises a lot of discussion and disagreements²¹, it is probable that for this reason the specialized international act for definition of such liability does not exist. Nevertheless, as mentioned above, minimum standards regarding the necessity to apply criminal liability for the piracy and commercial counterfeiting are specified in Article 61 of the TRIPS Agreement.

The concept of commercial scale is problematic. In Item 19 of the Preamble of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights: *"Acts carried out on a commercial scale are those carried out for direct or indirect economic or commercial advantage; this would normally exclude acts carried out by end-consumers acting in good faith"*. It should be noted that it is not possible to invoke this interpretation because in Items "b" and "c" of Part 3 of Article 2 of Chapter 1 of the Directive 2004/48/EC it is pointed out that the area of application of this directive does not include: the provisions of the TRIPS Agreement including the commitments related to criminal procedures and penalties (Article 61 of TRIPS); the national provisions of the Member States related to criminal procedures and penalties for intellectual property rights violations.²²

In accordance with the opinion of the authors, it is possible to state that the basis of criminalization of intellectual property rights violations exists in Article 61 of the

¹⁸ Paris Convention for the protection of industrial property of March 20, 1883, as revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague on November 6, 1925, at London on June 2, 1934, at Lisbon on October 31, 1958, and at Stockholm on July 14 1967. UNTS 828

¹⁹ Official Journal of the European Communities Charter of fundamental rights of the European Union, [2000] OL C 364/01

²⁰ Official Journal of the European Union Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon, 13 December 2007, [2007] OL C 306

²¹ Geiger, Ch., et al. Criminal Enforcement of Intellectual Property: A Handbook of Contemporary Research (Research Handbooks in Intellectual Property). United Kingdom: MPG Books group, 2012, p.1.

²² Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (OJ L 157, 30.4.2004)

TRIPS²³ s Agreement, so, unambiguously, it is impossible to agree with the opinion of the authors, who affirm that there are no international and regional legal acts that oblige to criminalize criminal offences related to counterfeiting.²⁴ The agreement is Annex of the Agreement establishing the World Trade Organisation (1C). It should be indicated that the establishment of criminal liability firstly must protect the trade relations *per se* the European Union market. It is thus no surprise that the commercial scale of activity is establishment of criminal liability on principal basis and separating from civil and administrative liability. It is specified in Article 61 “Criminal proceedings” of the TRIPS²⁵ Agreement that the Member States provide that in the cases of wilful trademark counterfeiting or copyright piracy on a commercial scale, criminal procedures and penalties should be applied. Remedies available include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence (in production of goods). The Member States may provide how criminal procedures and penalties are to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.²⁶

The demand for criminal liability for intellectual property rights violations is mentioned directly or indirectly in Regulation (EU) No 608/2013 of the European Parliament and of the Council of 12 June 2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation (EC) No 1383/2003 and Council Framework Decision of 13 June 2002 on the European arrest warrant and the surrender procedures between Member States (2002/584/JHA)²⁷.

The European Union in order to unify the intellectual property right, tried to implement it in two stages at civil, administrative and criminal level. For this purpose the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights has been successfully adopted²⁸. It is specified in Item 28 of the Preamble of this Directive that in addition to the civil and administrative measures, procedures and remedies provided for under this Directive, criminal sanctions also constitute, in appropriate cases, the means of ensuring the enforcement of intellectual property rights.

After the Member States successfully implemented most of the provisions of this Directive in the national law, the drafting of the legal act providing criminal liability for violations of the property right was started. “[...] *The second stage of Community*

²³ Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, UNTS. 299, 33 ILM 1197 (1994) [TRIPS Agreement].

²⁴ Justyna Levon (2016) Criminal Liability for Foreign Trade or Service Mark Use, Criminal Justice and Business, 253-273

²⁵ *Ibid.*

²⁶ TRIPS

²⁷ „The following offences, if they are punishable in the issuing Member State by a custodial sentence or a detention order for a maximum period of at least three years and as they are defined by the law of the issuing Member State, shall, under the terms of this Framework Decision and without verification of the double criminality of the act, give rise to surrender pursuant to a European arrest warrant: [...] counterfeiting and piracy of products”

²⁸ Directive 2004/48/EC of the European parliament and the council of 29 April 2004 on the enforcement of intellectual property rights, OJ L 157, 2004 4 30, p. 45—86

members procedural law unification is proposed, its objectives are expressed in the European Parliament and the Council Directive project COM/2006/0168 on criminal measures aimed at ensuring the enforcement of intellectual property rights [...]. The aim of this draft directive is to provide a uniform basis for criminal liability for intellectual property rights violations in the EU.”²⁹ After specification and defining (as compared with Article 61 of the TRIPS Agreement) of the requirements for the application of criminal liability for intellectual property violations (the amount of fines, prison terms, qualifying factors)³⁰, the common position was not coordinated, therefore, the directive has not entered into force.

The next attempt of the fight with the counterfeiting using penal measures at the international level was the Anti-Counterfeiting Trade Agreement between the European Union and its Member States, Australia, Japan, United States of America, the United Mexican States, Canada, the Republic of Korea, the Kingdom of Morocco, New Zealand, the Republic of Singapore and the Swiss Confederation (hereinafter - ACTA). The legal norms, which essentially itemize the provisions of Article 61 of the TRIPS Agreement, are specified in Article 23 “Criminal offenses” of the Agreement.³¹ The Agreement had

²⁹ 21. Kiškis, M., Kriščiūnaitis, M., *Measuring Intellectual Property Infringements: Methodological aspects*, Teisė. 2008; 68: 37-50

³⁰ Amended proposal for a Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights [2005] Brussels, 26.4.2006COM(2006) 168 final, Article 5: , *This article concerns the level of criminal penalties: offences must incur a maximum term of at least four years' imprisonment when they are committed under the aegis of a criminal organisation. The same applies where the offences carry a health or safety risk. The threshold of four years' imprisonment was chosen because it broadly corresponds to the criterion used to identify a serious offence. It is the threshold selected in Joint Action 98/733/JHA and in the proposal for a Council Framework Decision on the fight against organised crime (COM(2005) 6 final) and in the United Nations Convention against Organised Transnational Crime. For natural persons or legal entities who commit the offences listed in Article 3, the penalties include criminal and non-criminal fines to a maximum of at least EUR 100 000 for cases other than the most serious cases and to a maximum of at least EUR 300 000 for offences carried out under the aegis of a criminal organisation or which carry a health or safety risk. It must be possible for this factor to be taken into account where the risk is deemed to be present, even where the dangerous product has not yet caused any damage. A risk to personal health or safety exists where the counterfeit product placed on the market directly exposes people to a risk of illness or accident.*

³¹ „1. Each Party shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright or related rights piracy on a commercial scale.⁹ For the purposes of this Section, acts carried out on a commercial scale include at least those carried out as commercial activities for direct or indirect economic or commercial advantage.

2. Each Party shall provide for criminal procedures and penalties to be applied in cases of wilful importation 10 and domestic use, in the course of trade and on a commercial scale, of labels or packaging:

(a) to which a mark has been applied without authorization which is identical to, or cannot be distinguished from, a trademark registered in its territory; and

(b) which are intended to be used in the course of trade on goods or in relation to services which are identical to goods or services for which such trademark is registered.

3. A Party may provide criminal procedures and penalties in appropriate cases for the unauthorized copying of cinematographic works from a performance in a motion picture exhibition facility generally open to the public.

4. With respect to the offences specified in this Article for which a Party provides criminal procedures and penalties, that Party shall ensure that criminal liability for aiding and abetting is available under its law.

5. Each Party shall adopt such measures as may be necessary, consistent with its legal principles, to establish the liability, which may be criminal, of legal persons for the offences specified in this Article for which the Party provides criminal procedures and penalties. Such liability shall be without prejudice to the criminal liability of the natural persons who have committed the criminal offences.”

not entered into force because of provisions governing the criminal liability for violations of the copyright, potential incompatibilities with the right of individuals to privacy and uncertainty of legal norms, negative resonance reaction of the society in a large part of the European Union.

Specialized legal acts, such as the mentioned directive on the enforcement of intellectual property rights, regulates the protection only at civil or administrative level. Draft legislative acts, which were intended for establishment of the common standards for criminal liability for criminal offenses for intellectual property, did not enter into force due to the lack of consensus between the contracting parties. It should be noted that the TRIPS agreement and its first Articles, as mentioned, emphasize universal benefits, including stability of the market, the fragility of intellectual property and intellectual property rights holders' interests.

It follows that international legal acts distinguish public interest *inter alia* economy and business order of the European Union market as a fundamental value to be protected in case of counterfeiting of products or services. This is reflected in the necessity to follow the ordinary course of trade provided by the state, which ensures the honest behaviour of market participants, consumer interests and the collection of taxes.

In order to identify the additional values that should be protected by criminal laws of the Member States clearly, according to the authors' opinion, it is appropriate to distinguish relatively the most dangerous product groups, from which it is possible to determine to what objects damage can be done or the danger of such damage may arise.

Various factors determine harmfulness of the offence but the most important factors which determine hazard of the person's action and its criminal legal assessment, are values, to which this action is harmful or dangerous. According to the authors, dangerousness of the counterfeiting object is not identical in each case (clothes, medicines, toys, etc.), the evaluation criteria reflecting counterfeiting dangerousness per se allowing to speak about application of the criminal liability are relevant for the subject. So, the mutual objective of the legislator of the Member States (tracing the specific norm) and the case law of the Member States (distinguishing concrete criteria and explaining them) is the search of these criteria. According to the authors it is appropriate to distinguish qualified (leading to a higher hazard) liability for counterfeiting corpus delicti (body of crime) in the national law of the Member States determining a heavier responsibility, depending on the severity of the subject, respectively the importance of additional values.

Food and non-food products can be the counterfeit products. The most dangerous groups of counterfeiting are medicines, toys, fertilizers, certified food products and other food products. However, according to the authors, medicines are the most dangerous products because the improper use even of genuine medicines may be hazardous to health, certainly when the used medicine composition *de facto* is unknown, sometimes it is toxic.

The World Health Organisation, considering the large number of cases when people die from some of counterfeit medicine or the health is irretrievably unbalanced, specifies that counterfeit medicines are not only a threat to intellectual property, they are a threat for the person's life and health. According to that organization, protection of health and intellectual property are not the conflict areas³². So legal norms, which

³² Geiger, Ch., et al. Criminal Enforcement of Intellectual Property: A Handbook of Contemporary Research (Research Handbooks in Intellectual Property). United Kingdom: MPG Books group, 2012, p. 353

criminalize the counterfeiting market, should act effectively against the medicine counterfeiters. Thus, the authors conclude, that health and life can be considered the additional values as regards counterfeiting as a criminal offense³³.

Counterfeit specialized food products (eco-friendly, intended for diabetics, etc.), fertilizers (for the cultivation of green or other certifiable products) pose a threat to certain groups of people who are allergic, intolerant to certain products or people, who are not allowed to use specific materials because of the diseases. Therefore, the certified products sector should especially protect products from counterfeiting, because potential buyers of such products are also potential victims.

Dangers of toy counterfeits are hidden in cheap unsafe materials and the sensitivity of children to them. The use of paint based on lead is banned in Europe since 1978.³⁴ Counterfeiters, saving costs, choose unsafe prohibited materials and it can have a negative impact on children's health.

From set out above, it can be concluded that the basic values to be protected by the criminal laws of the Member States that criminalise counterfeiting as a criminal offence, are the economy and business procedures. Additional values are the rights of intellectual property subject. Also, according to the authors, health and life have to be distinguished as the additional values, which *per se* should be assessed as the qualifying feature (aggravating liability), depending on the type of the counterfeit product.

The concept - the counterfeit of the trademark is used in Article 61 of the TRIPS Agreement but its definition is not provided. It should be noted that the counterfeit of the trademark and the unauthorized use of the trademark are not identical terms. This concept can be considered to be equal (similar) to „counterfeit trademark goods“, the content of which is revealed in the note 14³⁵ of the mentioned Agreement, where it is specified that counterfeit trademark goods mean such goods, including packaging, on which there is the unauthorized trademark that is identical to the trademark, registered and valid in respect of such goods or the trademark, or which cannot be discerned

³³ *Ibid.*, p. 353 - 354: [...] the annual turnover of counterfeit drugs was estimated at US\$ 39 billion [...] These examples show a huge spectrum of events and their effects [...]: 1990: Over 100 children in Nigeria died from a cough syrup that was diluted with toxic solvent; 1995: 89 people in Haiti died after the intake of Paracetamol syrup (an analgesic) containing diethylene glycol; 1996: more than 59 children died after the intake of counterfeit fever syrup; 1999/2000: Approximately 60 people in Cambodia died after the intake of counterfeit anti-malarial drugs According to a study published in the leading medical journal *The Lancet* in 2001, up to, 40% of anti-malarial drugs sold in Third World countries do not contain enough or do not contain any active ingredient. The drugs are practically worthless, leading to thousands of deaths annually; 2002: In Switzerland, approximately 22,000 fake Viagra tablets were confiscated; 2002: AIDS medication designated for Africa was illegally reimported to Germany and the Netherlands on a large scale via France and Belgium. It had previously been delivered to developing countries at preferential prices; [...] 2006: At least 20 persons died in China after the intake of counterfeit antibiotics; During the second half of 2009, the multinational police operation 'Storm II' in several Southeast Asian countries led to the arrest of 30 suspects and the seizure of 20 million units of counterfeit or illegal drugs; 2010/12: In Germany, investigations into the dealings of several pharmaceutical wholesalers are currently underway. They had ostensibly on a large scale imported and sold to pharmacies active ingredients which had no regulatory approval for use in cancer drugs.

³⁴ Krugman and Jones [interantvys], <http://ec.elobot.co.uk/apsinuodijimas-svino>

³⁵ Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, UNTS. 299, 33 ILM 1197 (1994) [TRIPS Agreement].

Criminal Enforcement of Intellectual Property: A Handbook of Contemporary Research (Research Handbooks in Intellectual Property). United Kingdom: MPG Books group, 2012, p.175

according to its essential characteristics from the authorized trademark and which violates rights of the owner of the discussed trademark according the law of the state, to which the goods are imported.

The dual concept of the goods with counterfeit trademark can be distinguished from the definition, which is present in the TRIPS Agreement. The first concept is related to the goods with absolutely identical extraneous trademark. The second concept is related to the goods with the confusingly similar trademark, which cannot be distinguished from its essential features. In both cases, the subjects of the criminal offence want to mislead the purchaser using such actions, they want to use the purchaser's inability to compare the counterfeit trademark to the original trademark or otherwise verify the authenticity of the goods. In such way it is allowed to obtain benefits from the trademark investment to the marketing activities.

In view of the fact that namely the trademark counterfeiting is specified in Article 61 of the TRIPS Agreement ("*... Criminal procedures and penalties should be applied at least in the cases of the intentional counterfeiting of the trademark on the commercial scale*"), the authors conclude that the TRIPS agreement obliges to criminalise offenses, the subjects of which are: the trademarks identical to protected trademarks, trademarks, confusingly similar to protected trademarks, the goods marked identically to protected trademarks, the goods marked using the trademarks, confusingly similar to protected trademarks. It should be noted that the Member States' national regulation should ensure the avoidance of situation when criminals, knowing that criminal liability is established only for use of absolutely identical trademarks of extraneous goods or services, could use very similar trademarks (i.e. these trademarks could not be distinguished in the case of absence of the original trademark of goods or services by the ordinary person (non-specialist)).

It should be noted that the issue of counterfeiting should not be unduly extended, it should be clearly separated, when the trademark is considered identical or confusingly similar, which could not be discerned according to the essential characteristics and when the trademark causes only associations, i.e. it is visible that the product is not original without special knowledge.

According to the authors, during individualization of the penalty for counterfeiting, the Member States should pay due attention to the difference of prices of the counterfeit product and the original product. Especially for those cases, when the price is much lower than the price of the original product or service. In that case, the buyer understands that the product or the service is not original. In such case, the profit of the person who sells such goods is not higher, that it would be in case if this person would sell goods or services that are not marked using the extraneous trademark of goods or services. For application of the standard of *bonus pater familias* during consideration for criminal liability, according to the opinion of the authors, it is important that the user arriving in different trading venues, has different expectations to find the original high-quality goods. For example, when the medicines, for selling of which the permit is necessary, are bought in the market, and the prices of such medicines are lower than usually, it is possible to expect that the goods will not be of the adequate quality or (and) they will be marked with the counterfeit trademark. Meanwhile, buying clothes in a luxurious shop and paying higher prices, the user expects to receive the high-quality and original product. So, the authors believe that the circumstances, under which counterfeited goods are sold, for example, the difference of the price of the counterfeit product and the original product, could influence the individualization of punishment

but they cannot be the decisive criterion while assessing the issue of application of the criminal liability.

Thus, it can be suggested, that the existence of counterfeiting in the European Union market causes the following derivatives: firstly, the trademark proprietor is not paid for the goods, which are made and appear in the market marked using the proprietor's registered trademark; secondly, the price difference between the original and the counterfeit goods makes the original goods less attractive than the counterfeit goods; thirdly, *"the person buying counterfeit goods becomes a moral hostage because"*³⁶ indirectly contributes to the financing of crime because of inability to distinguish genuine goods from counterfeit products; fourthly, the buyer is deceived and disappointed because the quality of counterfeit goods is not the expected quality, fifthly, trademark rights bodies, especially small businesses, reduce turnover or bankrupt for this reason, they dismiss employees, because they cannot compete with the counterfeit market; sixthly, for certain groups of counterfeit (*"for example, alcohol, tobacco, medicines, car parts, toys, food products"*³⁷) a threat to health and life arises; seventhly, the counterfeiters attempt to violate *economic powers of the state, public welfare* because *they do not pay taxes, they do not invest to creation of legal workplaces, create confusion on confidence in the quality of products, encourage illegal work, increase the underground economy*.³⁸

Conclusions

1. Intellectual property objects variety determines its influence on diverse development of mankind, business relations (other manifestations of public interest), so criminal liability is necessary as the measure to protect the public interest. The protection of intellectual property is based on the labour and the utilitarianism theories, therefore regulation at the criminal level must be such that the balance would be maintained between the necessity of the protection of the rights of the property rights owner and the public interest. It should be noted that the excessive regulation that could stop further improvement of intellectual property objects and the creation of new objects should not be set.

2. Article 61 of the TRIPS Agreement³⁹, which is integrated in the European Union, law obliges to criminalize criminal offenses related to the counterfeiting of goods and services. This article is very abstract and it does not provide equal regulation at the criminal law level in the Member States while criminalizing criminal offenses related to counterfeiting of goods and services. Attempts to flesh out the provisions of the TRIPS at the European Union level detailing features of counterfeiting as a criminal offense did not produce results because there was no approval of the Member States.

3. The conclusion can be made from the existing abstract regulation that the Member States are obliged to criminalize at least counterfeiting goods and services, which includes: trademarks identical to protected trademarks, trademarks that are confusingly similar to a protected trademark, goods that are marked using the

³⁶ Laurinavičius, A. *Trade marks as a concept for protecting the international trade*, Intellectual economics, 2008, 1(3): 29-40.

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ 23.12.1994 Official Journal of the European Communities, L 336/214

trademarks, which are identical to protected trademarks, goods that are marked using the trademarks, which are confusingly similar to the protected trademark. The regulation of application of criminal liability for counterfeiting of goods and services should be directed to ensuring of the public interest maintaining the balance of the rights of users, the trademark owners and the reliable European Union market.

4. The sufficient attention to the circumstances in which the counterfeit goods were sold and bought should be paid during application of the criminal liability for the counterfeiting of goods and services and its individualisation.

5. Member States should differentiate counterfeiting as the body of crime of the criminal offence taking into account the type of the counterfeit product, possible damage. The counterfeit medicines are distinguished as extremely dangerous counterfeit products.

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