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Donna L. Tritter

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The EEC's Attempts to Stop the Importation of Counterfeit Goods

I. INTRODUCTION

Trade in counterfeit goods has risen significantly in recent years, which has correspondingly increased adverse worldwide economic consequences.¹ Worldwide sales of counterfeit goods are estimated by the European Parliament (Parliament) at \$50 billion.² Sales of counterfeit goods in the United States are estimated at up to \$19 billion and cost approximately 131,000 to 200,000 jobs annually.³ Developing countries are likewise affected by counterfeit goods.⁴ For example, in 1980 powdered limestone labeled as Chevron pesticide virtually destroyed Kenya's coffee crop, a cornerstone of its economy.⁵ The economic effects of counterfeit goods have been devastating throughout the world.⁶

Counterfeit goods also pose a worldwide health threat.⁷ For instance, in 1978 the U.S. Food and Drug Administration recalled over 350 heart pumps.⁸ The pumps contained a counterfeit piece which would have caused them to fail.⁹ More recently, Delta Airlines received counterfeit electronic tubes which it

¹ Resolution Closing the Procedure for Consultation of the European Parliament on the Proposal from the Commission of the European Communities to the Council for a Regulation (EEC) Laying Down Measures to Discourage the Release for Free Circulation of Counterfeit Goods, 28 O.J. EUR. COMM. (No. C 343) 111, 114 (1985) [hereinafter Resolution Closing the Procedure]. Between 1980 and 1984, profits from counterfeit goods in the United States increased from \$4.5 billion to almost \$19 billion. Note, *Countering International Trade in Counterfeit Goods*, 12 BROOKLYN J. INT'L L. 339, 342 (1986) [hereinafter Note, *Countering International Trade*]. Apple Computer's market share in Australia dropped from 90 percent in 1978 to 30 percent in 1982 because of counterfeit goods. Note, *Introduction to the Products Counterfeiting Survey*, 8 LOY. L.A. INT'L & COMP. L.J. 593, 595 (1986) [hereinafter Note, *Introduction to the Products*]. A U.S. International Trade Commission study found sources of counterfeit goods in 43 countries. *Id.*

² *EEC to Have Legal Means to Stop Imports of Counterfeit Goods*, 4 Common Mkt. Rep. (CCH) ¶ 10,840 (1987).

³ Note, *Introduction to the Products*, *supra* note 1, at 594, 594 n.8; Note, *Countering International Trade*, *supra* note 1, at 342.

⁴ Note, *Countering International Trade*, *supra* note 1, at 341.

⁵ *Id.*; Note, *Introduction to the Products*, *supra* note 1, at 594.

⁶ See Resolution Closing the Procedure, *supra* note 1, at 114. Worldwide, the counterfeiting of records constitutes 20 percent of all record sales. The counterfeiting of movies deprives the film industry of almost \$1 billion per year. Note, *Introduction to the Products*, *supra* note 1, at 594-95.

⁷ Note, *Countering International Trade*, *supra* note 1, at 339; Note, *Introduction to the Products*, *supra* note 1, at 594.

⁸ Note, *Countering International Trade*, *supra* note 1, at 340.

⁹ *Id.*

placed in its commercial airplanes.¹⁰ The tubes were actually worn-out parts which had been sandblasted, buffed, replated, and stamped with counterfeit General Electric logos.¹¹ In another counterfeiting scheme, counterfeit brake linings and oil filters for motor vehicles were manufactured in Taiwan.¹² The caps of the oil filters were actually Taiwanese asparagus cans.¹³ Counterfeit goods thus pose a serious health and safety threat.¹⁴

In order to combat trade in counterfeit goods, the Council of the European Communities¹⁵ (Council) recently enacted a regulation prohibiting the free circulation of counterfeit goods.¹⁶ This regulation allows owners of trademarks granted by European Economic Community (EEC) member states to request the customs authorities of each member state to suspend the circulation of counterfeit goods.¹⁷ Since the trademark owners may be citizens of any country, American trademark owners can invoke EEC law to protect their trademarks.¹⁸ If the request is granted, the customs authorities must destroy or dispose of the counterfeit goods.¹⁹ Upon request, the customs authorities must supply the trademark owner with the names and addresses of the consignor, importer, and consignee of the counterfeit goods.²⁰ The Council designed the regulation to discourage the trade of counterfeit goods.²¹

This Comment considers EEC regulation of the importation of counterfeit goods. First, the Comment examines the U.S. laws governing counterfeit goods.²² Second, the Comment considers the previous EEC regulation of imported counterfeit products.²³ Third, the Comment considers the new EEC regulation governing the importation of counterfeit products.²⁴ Finally, the

¹⁰ *Id.*; see also Note, *Introduction to the Products*, *supra* note 1, at 594. Some of these counterfeit parts may have been sold to the U.S. military. Note, *Introduction to the Products*, *supra* note 1, at 594.

¹¹ Note, *Introduction to the Products*, *supra* note 1, at 594 n.14.

¹² Note, *Countering International Trade*, *supra* note 1, at 340.

¹³ *Id.*

¹⁴ Resolution Closing the Procedure, *supra* note 1, at 114.

¹⁵ The Council of the European Communities (Council) is comprised of government representatives of all European Economic Community (EEC) member states. Each government appoints several of its ministers to the Council, including its foreign minister. T. HARTLEY, *THE FOUNDATIONS OF EUROPEAN COMMUNITY LAW* 14 (2d ed. 1988).

¹⁶ Regulation 3842/86, Council Regulation of 1 December 1986 Laying Down Measures to Prohibit the Release for Free Circulation of Counterfeit Goods, 29 O.J. EUR. COMM. (No. L 357) 1 (1986) [hereinafter Regulation 3842/86].

¹⁷ *Id.* at art. 3.

¹⁸ See *id.*

¹⁹ *Id.* at art. 7.

²⁰ *Id.*

²¹ *Id.* at preamble.

²² See *infra* notes 26–60 and accompanying text.

²³ See *infra* notes 61–68 and accompanying text.

²⁴ See *infra* notes 69–97 and accompanying text.

Comment analyzes the new EEC regulation as compared with the prior and current U.S. laws.²⁵

II. U.S. LAW REGARDING THE IMPORTATION OF COUNTERFEIT GOODS

A. *Previous U.S. Law*

Prior to 1984, the importation of counterfeit goods²⁶ into the United States was governed by the Tariff Act of 1930²⁷ (Tariff Act) and the Lanham Trade-Mark Act²⁸ (Lanham Act). The Tariff Act prohibits the importation into the United States of any goods bearing a trademark owned by a U.S. citizen or corporation, providing that the trademark is registered in the Patent and Trademark Office and the trademark registration is filed with the Secretary of the Treasury.²⁹ If, however, the trademark owner consents in writing to the importation at the time of entry, importation is permitted.³⁰ Any merchandise imported in violation of this law is subject to seizure and forfeiture.³¹ The Tariff Act also creates a private right of action.³² A person dealing in imported counterfeit goods may be enjoined from so doing, forced to export or destroy the goods, or forced to remove the trademark.³³ Finally, the Tariff Act exempts the importation of some goods imported for personal use.³⁴ The Tariff Act thus prohibits unauthorized importation of goods bearing a U.S. trademark.³⁵

The Lanham Trade-Mark Act prohibits the importation of goods bearing trademarks which infringe upon³⁶ a U.S. trademark.³⁷ The Lanham Act provides that goods which copy or simulate a registered trademark may not be

²⁵ See *infra* notes 98-119 and accompanying text.

²⁶ 15 U.S.C. § 1127 defines counterfeit goods as goods bearing "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark." 15 U.S.C. § 1127 (1982). The Court of Appeals for the Second Circuit has held that whether a mark is substantially indistinguishable from a registered mark will be viewed from the perspective of the average purchaser, rather than an expert. The court also held that the questionable mark will be compared with the genuine mark on actual merchandise, rather than on its registration certificate. *Montres Rolex, S.A. v. Snyder*, 718 F.2d 524, 531 (2d Cir. 1983).

²⁷ 19 U.S.C. § 1526 (1982).

²⁸ 15 U.S.C. §§ 1124-25 (1982).

²⁹ 19 U.S.C. § 1526(a) (1982). As of 1986, over 6,000 trademarks and copyrights were recorded with the Department of Treasury. Note, *Trademark and Copyright Protection Under the United States Customs Laws*, 8 LOY. L.A. INT'L & COMP. L.J. 669, 686 (1986).

³⁰ 19 U.S.C. § 1526(a) (1982).

³¹ *Id.* at § 1526(b).

³² *Id.* at § 1526(c).

³³ *Id.*

³⁴ *Id.* at § 1526(d).

³⁵ *Id.* at § 1526(a)-(d).

³⁶ A mark infringes upon a registered trademark if it creates a substantial likelihood of confusion with the registered mark. *Montres Rolex S.A. v. Snyder*, 718 F.2d 524, 531-32 (2d Cir. 1983).

³⁷ 15 U.S.C. § 1124 (1982).

imported into the United States. To protect against counterfeiting, trademark owners may record their names, copies of their trademark registrations, and facsimiles of their trademarks with the Department of the Treasury. The Secretary of the Treasury will send copies to U.S. customs officers. Importation of goods with an infringing mark is prohibited.³⁸

The Lanham Act additionally prohibits the importation of goods bearing false descriptions or representations.³⁹ Anyone who knowingly affixes a false description or representation onto goods and enters them into commerce is liable to everyone damaged, or likely to be damaged, by the false description or representation. Goods bearing false descriptions or representations may not be imported into the United States.⁴⁰ The Lanham Act thus prohibits the importation into the United States of goods with either an infringing mark or a false description or representation.⁴¹

The U.S. Customs Service has promulgated regulations regarding both the Tariff Act and the Lanham Act.⁴² The regulations provide that goods bearing a copied or simulated mark, or a mark identical to a U.S. trademark, are subject to seizure and forfeiture.⁴³ The goods will be detained for thirty days after the importer is notified of the detention, during which time the importer may establish that the goods are exempt from seizure.⁴⁴ If the importer establishes an exemption, the goods will be released.⁴⁵ Alternatively, if the importer does not establish an exemption, the goods will be seized and the Customs Service will begin forfeiture proceedings.⁴⁶ The importer will be notified of these actions.⁴⁷ These regulations apply to all goods bearing infringing marks, whether or not the mark is counterfeit.⁴⁸

³⁸ *Id.*

³⁹ 15 U.S.C. § 1125 (1982).

⁴⁰ *Id.*

⁴¹ *Id.* at §§ 1124–25.

⁴² Importations Bearing Recorded Trademarks or Trade Names, 19 C.F.R. §§ 133.21–133.24 (1987). These regulations have been subject to serious attack in one circuit. The Court of Appeals for the District of Columbia Circuit has declared that the Customs Service regulations are inconsistent with the Tariff Act of 1930 and hence are invalid. *Coalition to Preserve the Integrity of American Trademarks v. United States*, 790 F.2d 903, 917 (D.C. Cir. 1986). This is the only court to hold that the regulations are invalid. *See Vivitar Corp. v. United States*, 761 F.2d 1552, 1569 (Fed. Cir. 1985) (the Customs Service regulations are consistent with the Tariff Act of 1930 and hence valid); *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986) (the Customs Service regulations are consistent with the Tariff Act of 1930 and hence valid).

⁴³ Importations Bearing Recorded Trademarks or Trade Names, 19 C.F.R. § 133.21 (1987).

⁴⁴ *Id.* at § 133.22.

⁴⁵ *Id.* at § 133.23.

⁴⁶ *Id.* at § 133.22.

⁴⁷ *Id.*

⁴⁸ *Id.* at §§ 133.21–133.24.

If a mark is counterfeit, the regulations provide that the goods will be seized and the trademark owner notified.⁴⁹ The trademark owner may provide written consent to a particular disposition.⁵⁰ Alternatively, the goods will be used by the government, given to charity, sold at public auction, or destroyed.⁵¹ Counterfeit and infringing goods which are mistakenly allowed into the United States are subject to redelivery to the Customs Service upon its demand.⁵² The Customs Service regulations thus implement the statutory dictates of the Trademark Act and the Lanham Act.⁵³

B. *New U.S. Law Regarding Importation of Counterfeit Goods*

In 1984, the federal statutes were amended to provide greater civil remedies for damages due to trade in counterfeit goods.⁵⁴ The amendments to the Trademark Act of 1946 (amended Trademark Act) provide that, upon the filing of a complaint, the courts may grant an injunction to prevent the violation of trademark rights. The trademark owner must notify the U.S. Attorney of the counterfeiting. The court may only seize the goods if it determines that: the seizure is necessary; the trademark owner has not publicized the seizure; the trademark owner is likely to succeed; the trademark owner will be immediately and irreparably harmed if the goods are not seized; the harm of denying the injunction outweighs the harm of granting the injunction; and the defendant would destroy or hide the goods if seizure is not ordered. The court may seize the counterfeit goods, the counterfeiting apparatus, and the defendant's records. The trademark owner must also provide security adequate to pay damages in case the seizure was wrongful. If the seizure is wrongful, the damaged party may sue the trademark owner.⁵⁵

If successful, the trademark owner may recover the profits made by the defendant, the damages sustained by the trademark owner, and the costs of the action.⁵⁶ The trademark owner must prove only the amount of the defendant's sales; the defendant must prove all costs and deductions. The court may assess treble damages or adjust the amount of recovery. If the court finds that the defendant knew the goods were counterfeit and nonetheless distributed or offered to distribute the goods, the court must assess the greater of treble

⁴⁹ *Id.* at § 133.23(a).

⁵⁰ *Id.* The trademark owner may consent to importation, importation after removal of the trademark, exportation, or another appropriate disposition. *Id.*

⁵¹ *Id.* at § 133.52.

⁵² *Id.* at § 133.24.

⁵³ *Id.* at §§ 133.21-133.24.

⁵⁴ 15 U.S.C. § 1116 (Supp. IV 1986).

⁵⁵ *Id.*

⁵⁶ *Id.* at § 1117.

profits or damages, plus attorney's fees. The court may also award interest. The trademark owner may request destruction of the goods and counterfeiting apparatus.⁵⁷ Thus, the civil penalties available under the amended Trademark Act are harsher than those available under the Tariff Act and the Lanham Act.⁵⁸

In 1984, the same year the harsher civil remedies were added to combat importation of counterfeit goods, the federal statutes were amended to create a criminal penalty for trafficking in counterfeit goods.⁵⁹ Individuals who knowingly traffic in counterfeit goods are subject to imprisonment of up to five years and a fine of up to \$250,000. A second conviction carries a sentence of up to fifteen years imprisonment and a fine of up to \$1 million. Corporations may be fined up to \$1 million for a first offense and \$5 million for a second offense. All defenses available under the Lanham Act are available under this section. As with civil penalties, the counterfeit goods may be destroyed per order of the court.⁶⁰

III. EEC LAW REGARDING THE IMPORTATION OF COUNTERFEIT GOODS

A. *Pre-1988 EEC Law*

The EEC was created in 1957 to establish a common market for the free movement of goods, people, services, and capital.⁶¹ To effectuate these goals, the Treaty of Rome (EEC Treaty) prohibits customs duties, quotas and other obstacles to the free movement of people, services, and capital between member states.⁶² These provisions are interpreted broadly because they are fundamental to EEC theory.⁶³ The EEC Treaty established an EEC tariff and commercial policy common to all member states with regard to nonmember countries.⁶⁴ The member states of the EEC thus created a community dedicated to a free market amongst member states and a common economic policy with nonmember countries.⁶⁵

Recognizing that the prohibition of tariffs and quotas is insufficient to ensure the free movement of goods, the EEC Treaty includes several provisions dic-

⁵⁷ *Id.* at § 1118.

⁵⁸ See *supra* notes 26-53 and accompanying text.

⁵⁹ 18 U.S.C. § 2320 (Supp. IV 1986).

⁶⁰ *Id.*

⁶¹ Treaty Establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 11, art. 3 [hereinafter EEC Treaty].

⁶² *Id.*

⁶³ Korah, *The Limitation of Copyrights and Patents by the Rules for the Free Movement of Goods in the European Common Market*, 14 CASE W. RES. J. INT'L L. 7, 9 (1982).

⁶⁴ EEC Treaty, *supra* note 61, at art. 3. See also *id.* at arts. 5, 7.

⁶⁵ *Id.* at arts. 2-3.

tating harmonization of the laws of member states.⁶⁶ Patents, copyrights, and trademarks, however, had not been harmonized as of the end of 1987. Rather, they remained a matter of individual state law.⁶⁷ Thus, prior to 1988, the EEC had no consistent policy regarding the regulation of patents, copyrights, or trademarks.⁶⁸

B. *Post-1987 EEC Law*

1. Background to the EEC's Regulation of Counterfeit Goods

Due to the substantial increase in the importation of counterfeit goods into the EEC, in January 1985 the Commission of the European Communities (Commission)⁶⁹ proposed a regulation to discourage the importation of counterfeit goods.⁷⁰ The draft regulation provided that, where trademark owners of member states had valid reasons for suspecting that importation of goods infringing their trademark rights was contemplated, the appropriate customs authorities would suspend release of the goods into the EEC.⁷¹ This proposal concerned only goods originating from outside the EEC and included only trademarks which were registered according to EEC law or laws of the member states.⁷² The proposal limited the request for EEC intervention to the customs authorities where the trademark was registered.⁷³ The proposal stated that the authorities could require the trademark owner to provide security to indemnify the customs authority.⁷⁴ This draft regulation was the EEC's first attempt to decrease the influx of counterfeit goods.

In August 1985, the proposal was reviewed by the Economic and Social Committee of the EEC (Committee).⁷⁵ The Committee issued a non-binding

⁶⁶ Smit, *The Relation of Intellectual Property Rights to Cross-Border Trade in the EEC*, 11 CANADA-U.S. L.J. 69 (1986); EEC Treaty, *supra* note 61, at arts. 27, 99-102.

⁶⁷ Korah, *supra* note 63, at 11. An inventor may, however, make one patent application to the European Patent Convention (EPC) for a patent in each state which is a member of the EPC. The EPC then forwards the application to its member states, which individually consider the application. The EPC is not limited to EEC member states. Smit, *supra* note 66, at 70.

⁶⁸ Kemp, *The Erosion of Trade Mark Rights in Europe*, 11 COMMON MKT. L. REV. 360 (1974).

⁶⁹ The Commission formulates proposals for new policies, mediates between member states on adoption of proposals, coordinates national policies, and oversees execution of EEC policies. T. HARTELEY, *supra* note 15, at 8.

⁷⁰ Proposal for a Council Regulation Laying Down Measures to Discourage the Release for Free Circulation of Counterfeit Goods, 28 O.J. EUR. COMM. (No. C 20) 7 (1985) [hereinafter Proposal for a Council Regulation]. One of the Commission's primary duties is to submit proposals to the Council. EEC Treaty, *supra* note 61, at art. 155.

⁷¹ Proposal for a Council Regulation, *supra* note 70, at 7.

⁷² *Id.* at preamble, art. 2.

⁷³ *Id.* at art. 2.

⁷⁴ *Id.*

⁷⁵ Opinion on the Proposal for a Council Regulation Laying Down Measures to Discourage the Release for Free Circulation of Counterfeit Goods, 28 O.J. EUR. COMM. (No. C 218) 7 (1985) [here-

opinion suggesting passage with a few changes.⁷⁶ The Committee requested that the proposal apply not only to trademarks registered outside the EEC, but also to trademarks registered within the EEC and to registered models and designs. In addition, the opinion requested that the proposed protections extend to all EEC member states. The Committee strongly suggested that the authorities not be allowed to require indemnification except in cases of abusive applications. Furthermore, the Committee requested that there be no imposition of an administrative fee because it feared that some trademark owners would be unable to request protection. The Committee was the first to suggest that the trademark owner should be able to request information regarding the counterfeit products' origination. The Committee suggested adoption of the proposal only with the stated changes.⁷⁷

Parliament⁷⁸ received the proposed regulation with the Committee's suggested modifications.⁷⁹ Parliament left the possibility of indemnification or administrative fees intact.⁸⁰ It discarded a provision allowing the authorities to take measures other than confiscation in exceptional cases.⁸¹ Additionally, Parliament suggested that the regulation be re-evaluated after three years.⁸² Contrary to the suggestion of the Committee, Parliament suggested that the regulation refer only to goods originating from outside the EEC.⁸³ Parliament was concerned that, if the regulation applied to goods originating within the EEC, the regulation would create barriers to the free movement of goods protected by the EEC Treaty.⁸⁴ Subject to its amendments, Parliament suggested adoption

inafter Opinion on the Proposal]. This Committee advises both the Commission and the Council. EEC Treaty, *supra* note 61, at art. 193. The Committee must be consulted on many occasions. The Committee may also initiate action in certain cases. Toepke, *The European Economic Community—A Profile*, 3 Nw. J. INT'L L. & Bus. 640, 652 (1981).

⁷⁶ Opinion on the Proposal, *supra* note 75.

⁷⁷ *See id.*

⁷⁸ Parliament represents the people of the EEC. Parliament writes proposals which are sent to the Council for action. T. HARTLEY, *supra* note 15, at 23, 24. As of 1988, Parliament consisted of 518 members. *Id.*

⁷⁹ Texts Adopted by the European Parliament, 28 O.J. EUR. COMM. (No. C 343) 111 (1985) [hereinafter Texts Adopted].

⁸⁰ *Id.* at 112. The text proposed by the Committee states:

The customs authorities or the Commission, according to the circumstances, shall decide on the application and inform the person concerned accordingly. The applicant may be required to provide security in an amount sufficient to indemnify the competent authorities or compensate the importer for any loss or damage resulting from measures adopted by those authorities where goods in relation to which action is taken by the customs authorities pursuant to this Regulation are subsequently shown not to be counterfeit. The applicant may also be required to pay a sum to cover the administrative or legal costs resulting from the application.

Id. (emphasis in original).

The European Parliament adopted the section verbatim, except that it excised the two italicized words.

Id.

⁸¹ *Id.* at 113.

⁸² *Id.* at 115.

⁸³ *See id.*

⁸⁴ *Id.*

of the proposal.⁸⁵ Parliament regarded the proposed regulation as only a first step towards protection of trademarks.

2. Regulation 3842/86

The enacted regulation, Regulation 3842/86, was adopted by the Council in 1986 to protect trademark owners without impeding lawful trade.⁸⁶ The regulation prohibits the circulation of counterfeit goods in EEC member states.⁸⁷ A trademark owner may apply to the authority of each member state for suspension of the circulation of goods if that owner has valid grounds for suspecting that the importation of counterfeit goods into that member state is contemplated.⁸⁸ The application must contain information sufficient to enable the authorities to act with full knowledge, to recognize the goods, and to prove that the applicant owns the trademark.⁸⁹ The authorities may charge the applicant a fee to cover the administrative costs of the application.⁹⁰ Member states may require trademark owners to provide security in case their actions or omissions contradict the necessary requirements, or the goods are actually not counterfeit.⁹¹

⁸⁵ *Id.* at 114.

⁸⁶ Regulation 3842/86, *supra* note 16, at preamble. The regulation became effective as of January 1, 1988. *Id.* at art. 12.

⁸⁷ *Id.* at art. 2. Article 2 states that "[t]he release for free circulation of goods found to be counterfeit on completion of the procedure provided for in Article 5 of this Regulation shall be prohibited." *Id.* Counterfeit goods are defined in the preamble as "goods bearing a trade mark without authorization . . ." *Id.* at preamble.

⁸⁸ *Id.* at art. 3. Article 3 states in pertinent part:

In each Member State, a trade mark owner may lodge an application in writing with the competent authority for suspension by the customs authorities of the release of counterfeit goods entered for free circulation in that Member State, where he has valid grounds for suspecting that the importation of such counterfeit goods is contemplated in that Member State.

Id.

⁸⁹ *Id.* Article 3 states in pertinent part:

The application referred to in paragraph 1 must contain all pertinent information available to the trade mark owner to enable the competent authority to act on the application in full knowledge of the facts, and must, in particular, contain a sufficiently detailed description of the goods to enable them to be recognized by the customs authorities. It must be accompanied by proof that the applicant is the owner of the trade mark for the goods in question.

The application must specify the length of the period for which the customs authorities are requested to take action.

Id.

⁹⁰ *Id.* Article 3 states, in pertinent part, that "the applicant may be charged a fee to cover the administrative costs incurred in dealing with the application." *Id.*

⁹¹ *Id.* Article 3 states in pertinent part:

Member States may require a trade mark owner, where his application has been accepted, or where the release of a consignment of goods has been suspended pursuant to Article 5 (1), to provide a security to cover any liability on his part vis-à-vis the importer where the procedure initiated pursuant to Article 5 (1) fails to be continued due to any act or omission by the trade mark owner or where the goods in question are subsequently found not to be counterfeit

Moreover, the competent authority may require the applicant to bear the costs incurred in

When an application is granted by a member state, and the customs authorities discover the counterfeit goods, the authorities must suspend the circulation of the items.⁹² The customs authorities must notify the trademark owner, the source of the counterfeit goods, and the authorities which granted the application.⁹³ The authorities will destroy or dispose of, but not sell, the counterfeit goods without compensation.⁹⁴ The authorities are allowed to take any other measures to deprive the counterfeiters of any economic benefit and to provide an effective deterrent against future importation of counterfeit goods.⁹⁵ Upon request, the customs authorities must provide the trademark owner with the names and addresses of the consignor, importer, and consignee of the counterfeit goods.⁹⁶ On or before January 1, 1991, the Commission must reconsider the regulation and report on its operation and any necessary amendments.⁹⁷

keeping the goods under customs control pursuant to Article 5 or in bringing a legal action to which the trade mark owner is not a party and to provide a security in order to ensure payment of that sum.

Id.

⁹² *Id.* at art. 5. Article 5 states in pertinent part:

Where a customs office to which the decision granting an application from the owner of a trade mark has been forwarded pursuant to Article 4 is satisfied, after consulting the applicant where necessary, that goods entered for free circulation correspond to the description of the counterfeit goods contained in that decision, it shall suspend release thereof.

Id.

⁹³ *Id.* Article 5 states, in pertinent part, that the customs office "shall inform the person making the entry and the authority which decided on the application. The customs office or the abovementioned authority shall also inform the applicant of the measure." *Id.*

⁹⁴ *Id.* at art. 7. Article 7 states in pertinent part:

1. Without prejudice to the other rights of action open to the owner of a trade mark which has been found to be infringed, Member States shall adopt the measures necessary to allow the competent authorities:

(a) as a general rule, and in accordance with the relevant provisions of national law, to destroy goods found to be counterfeit, or dispose of them outside the channels of commerce in such a manner as to minimize harm to the trade mark owner, without compensation of any sort

....

Id.

⁹⁵ *Id.* Article 7 states in pertinent part:

1. Without prejudice to the other rights of action open to the owner of a trade mark which has been found to be infringed, Member States shall adopt the measures necessary to allow the competent authorities: . . .

(b) to take in respect of such goods any other measures having the effect of effectively depriving those responsible for importation of the economic benefits of the transaction and constituting an effective deterrent to further transactions of the same kind.

Id.

⁹⁶ *Id.* Article 7 states in pertinent part:

Unless running counter to provisions of national law, the customs office concerned or the competent authority shall inform the trade mark owner, upon request, of the names and addresses of the consignor, importer and consignee of the goods found to be counterfeit and of the quantity of the goods in question.

Id.

⁹⁷ *Id.* at art. 11. Article 11 states in pertinent part:

Within three years following the entry into force of this Regulation, the Commission shall, on the basis of the information referred to in paragraph 3, report to the European Parliament

IV. ANALYSIS OF THE POST-1987 EEC LAW GOVERNING THE IMPORTATION OF COUNTERFEIT GOODS

Regulation 3842/86 is a significant improvement over the EEC's previous policy of not regulating counterfeit imports.⁹⁸ Rather than leaving the problem to the individual member states, the new regulation allows a trademark owner of one member state to protect the mark in each member state.⁹⁹ This regulation improves EEC law by prohibiting the importation of counterfeit goods into the EEC and providing for the destruction of counterfeit goods.¹⁰⁰ Regulation 3842/86 marks the first attempt at a comprehensive EEC law regarding counterfeit goods.¹⁰¹

Regulation 3842/86 is similar to U.S. law prior to the passage of §§ 1116–1118 of the amended Trade-Mark Act, and § 2320 of the Criminal Code, which were ineffective. The EEC regulation and pre-1988 U.S. law both allow a trademark owner to apply to the authorities for trademark protection.¹⁰² Both laws provide that the customs authorities may require security from the trademark owner.¹⁰³ Both laws provide for the seizure of the counterfeit goods, but for no further penalty.¹⁰⁴ The customs authorities must, in each case, notify the trademark owner and the importer of the counterfeiting.¹⁰⁵ Regulation 3842/86 thus closely resembles the U.S. Tariff Act of 1930 and Lanham Act counterfeit goods provisions.

Regulation 3842/86 will probably suffer criticism similar to that levied against the previous U.S. laws.¹⁰⁶ Under the Tariff Act and the Lanham Act, estimates of revenue losses of U.S. businesses were approximately \$19 billion annually.¹⁰⁷ In addition to revenue losses, the counterfeiting claimed U.S. jobs,¹⁰⁸ U.S. health

and the Council on the operation of the system instituted thereunder and shall propose such amendments and additions as need to be made thereto.

Id.

⁹⁸ Compare *supra* notes 42–53 and accompanying text with *supra* notes 69–97 and accompanying text.

⁹⁹ See generally Regulation 3842/86, *supra* note 16.

¹⁰⁰ *Id.* at arts. 3, 7.

¹⁰¹ See *id.*

¹⁰² Regulation 3842/86, *supra* note 16, at art. 3; 19 U.S.C. § 1526(a) (1982). There is one important difference between the two laws. The EEC regulation allows trademark owners to apply for suspension of circulation only when they have valid grounds for suspecting importation. The U.S. statute allows trademark owners to register with the Treasury Department at any time, which requires the Customs Service to check for counterfeits at all times. Therefore, the U.S. laws provide for more opportunities to uncover importation of counterfeit goods. If there is any empirical difference between the EEC regulation and the U.S. laws due to this, the U.S. laws should be more effective. Compare Regulation 3842/86, *supra* note 16, at art. 3 with 19 U.S.C. § 1526(a) (1982).

¹⁰³ Regulation 3842/86, *supra* note 16, at art. 3; 15 U.S.C. § 1116 (Supp. IV 1986).

¹⁰⁴ See Regulation 3842/86, *supra* note 16, at art. 7; 19 U.S.C. § 1526 (1982).

¹⁰⁵ Regulation 3842/86, *supra* note 16, at art. 7; see 19 U.S.C. § 1526(1982).

¹⁰⁶ See Note, *Introduction to the Products*, *supra* note 1, at 596.

¹⁰⁷ Note, *supra* note 29, at 669 (estimates that \$19 billion of counterfeit goods were in the U.S. market at the time of writing).

¹⁰⁸ Note, *Introduction to the Products*, *supra* note 1, at 594 (estimating loss of 131,000 jobs annually).

and welfare,¹⁰⁹ and U.S. business reputations.¹¹⁰ Furthermore, the ineffectiveness of the prior U.S. laws is evident by the 1984 amendments which added harsher civil remedies and a criminal penalty.¹¹¹ Since Regulation 3842/86 is very similar to the early U.S. statutes, and since these statutes were largely ineffective, Regulation 3842/86 may have similar problems.

Under Regulation 3842/86, trademark owners may request seizure of goods only where they have valid reasons for suspecting that importation is contemplated by counterfeiters.¹¹² The trademark owners must provide information sufficient to enable the member state to act with full knowledge of the facts.¹¹³ Thus, only contemplated importation discovered by a trademark owner is affected.¹¹⁴ The regulation provides no recourse for a trademark owner who discovers counterfeit goods after importation into the EEC.¹¹⁵

Regulation 3842/86 may be inefficient in its procedure. A trademark owner must lodge an application in each member state separately.¹¹⁶ Each member state will thereafter act separately.¹¹⁷ There are no provisions for concerted action among the EEC member states.¹¹⁸

At the time of the required 1991 report regarding the regulation,¹¹⁹ the EEC could make Regulation 3842/86 more effective by amending it as the United States has amended its laws.¹²⁰ First, the EEC could impose a stricter penalty upon importers of counterfeit goods, such as present U.S. law provides.¹²¹ High monetary fines might be effective at discouraging the importation of counterfeit goods.¹²² In addition, the EEC could encourage member states to impose criminal penalties on counterfeiters.¹²³

Second, the EEC could extend the regulation, as the United States has, to allow a trademark owner to file the mark with the customs authorities at all times, rather than just when there is reason to suspect contemplated importation

¹⁰⁹ Note, *Countering International Trade*, *supra* note 1, at 339-40 (reporting twelve deaths due to counterfeit drugs in 1984 alone).

¹¹⁰ Note, *Introduction to the Products*, *supra* note 1, at 593-94; Note, *supra* note 29, at 669.

¹¹¹ See 15 U.S.C. §§ 1116-18 (Supp. IV 1986); 18 U.S.C. § 2320 (Supp. IV 1986).

¹¹² Regulation 3842/86, *supra* note 16, at art. 3.

¹¹³ *Id.*

¹¹⁴ *See id.*

¹¹⁵ See Regulation 3842/86, *supra* note 16.

¹¹⁶ *Id.* at art. 3.

¹¹⁷ *Id.* at art. 5.

¹¹⁸ See Regulation 3842/86, *supra* note 16.

¹¹⁹ *Id.* at art. 11. The report must be submitted on or before January 1, 1991. *Id.* at arts. 11-12.

¹²⁰ See *supra* notes 54-60 and accompanying text.

¹²¹ *Id.*

¹²² See *supra* notes 56-58 and accompanying text.

¹²³ See *supra* notes 59-60 and accompanying text.

of counterfeit goods.¹²⁴ Customs authorities would be able to check imports periodically, thus increasing the possibility of discovering counterfeit goods. If a trademark owner discovers a contemplated importation, the owner would be able to alert the customs authorities to the importation.¹²⁵ In this way, more counterfeit goods could be uncovered.

Third, a single Council committee could act as an information disseminating station. Trademark owners could send one copy of an application to this station, and the committee could forward the information to the customs authorities in each member state. Likewise, upon discovery of counterfeit goods, the member states could forward the information to the committee, which could disseminate the information to all other member states. This coordination of information would make Regulation 3842/86 much more effective.

Fourth, the EEC and the United States could explore the possibility of coordinating their efforts. The Council committee and the U.S. Customs Service could share information on counterfeit goods. Such efforts might decrease the individual effort necessary to combat counterfeit goods trade and increase the effectiveness of the laws.

V. CONCLUSION

Regulation 3842/86, effective as of January 1, 1988, prohibits the importation of counterfeit goods into EEC member states. The regulation allows trademark owners to petition individual member states to seize counterfeit goods. Where there are valid reasons for suspecting that importation of counterfeit goods is contemplated, the trademark owner may apply to individual member states to seize counterfeit goods upon importation. This is the EEC's first step toward regulating the importation of counterfeit goods.

Regulation 3842/86, however, may not be harsh enough to be effective. The regulation provides no deterrent other than seizure of the counterfeit goods. The regulation provides no remedies except when there are valid reasons for suspecting that importation is contemplated. The trademark owner must apply to each member state individually for such seizure. Therefore, the regulation probably will be ineffective.

The Council could amend Regulation 3842/86 to allow trademark owners to register their trademarks at all times. The EEC could impose a stricter financial penalty on counterfeit goods importers and encourage member states to impose

¹²⁴ See *supra* note 38 and accompanying text.

¹²⁵ See *id.*

criminal penalties. A Council committee could act as an information disseminating station among the member states. This committee could coordinate its efforts with the U.S. Customs Service, to help each combat the growing international counterfeiting trade. If these measures are followed, the EEC's attempts at discouraging the importation of counterfeit goods might be more effective.

Donna L. Tritter