

**COUNTERFEITING AND PIRACY: WIPO/OECD EXPERT MEETING ON MEASUREMENT AND STATISTICAL ISSUES**

Bernardita Escobar - Advisor to Minister of the Economy and Energy- Chile

**STRUCTURE OF PRESENTATION**

- 1 **Determining the Concept of Counterfeit and Piracy**
  - 1.1 Agreed Definitions
  - 1.2 Common Elements to Agreed Counterfeit and Piracy definitions
  - 1.3 Unauthorized use with no infringement. Country differences
  - 1.4 Special case: Counterfeit in Medicines
  
- 2 **Determining Economic Impact**
  - 2.1 Choosing a benchmark and choosing a focus
  - 2.2 Relation between market Demand and Level of Protection
  - 2.3 Consequences for Cross country analysis

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**COUNTERFEITING AND PIRACY. METHODOLOGICAL ISSUES TO CONSIDER IN CROSS COUNTRY ANALYSIS**

**1 Determining the concept of analysis: Counterfeiting and Piracy at global scale.**

**1.1 Definition: Internationally IP agreed language**

**1.1.1 TRIPS language (agreed by 148 countries)**

Preamble.. "*Recognizing* the need for a multilateral framework of principles, rules and disciplines dealing with **international trade in counterfeit goods**"

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**1.1.1 TRIPS Language**

- Further use of terms in enforcement section
  - article 46, '.. In regard to **counterfeit trademark goods**, the simple removal ..
  - article 51 '..of **counterfeit trademark or pirated copyright goods**..' and footnote 14
  - article 59 '...In regard to **counterfeit trademark goods**..'
  - article 61 '.. at least in cases of willful **trademark counterfeiting or copyright piracy** on a commercial scale..'
  - article 69 '..with a view to eliminating international trade in **goods infringing intellectual property rights**.....with regard to trade in **counterfeit trademark goods and pirated copyright goods**.

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**1.1.2 Berne (agreed by 159 countries)**

- Article 13.3 'Recordings made in accordance with paragraphs (1) and (2) of this Article and imported without permission from the parties concerned into a country where they are treated as **infringing** recordings shall be liable to seizure.

**1.1.3 Lisbon (agreed by 23 countries)**

- Article 3 'Protection shall be ensured against any **usurpation or imitation**, even if the true origin of the product is indicated or if the appellation is used in translated form or accompanied by terms such as "kind," "type," "make," "imitation," or the like.'

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**TRIPs (agreed by 148 countries)**

■ Article 51. Footnote 14

“ For the purposes of this Agreement:

- (a) **counterfeit trademark goods** shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation;
- (b) **"pirated copyright goods"** shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.)

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**1.2 Common elements of agreed definition Article 51. Footnote 14  
TRIPs**

- Use of identity or close similarity to IP protected locally
- Unauthorized use
- Infringement in country of importation
- International Trade or distribution occurring

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**1.3 Sources of Unauthorized use with no infringement. Table N°1**

Norm Type	Category of IP Good				
	Copyright	Related rights	Trademark	Patents	GI
Exceptions	Free use of protected works		6quinquies B Paris (moral, distinctiveness, infringing)	5 ter Paris, use by vessels and aircraft in transit	24.4 Trips use in good faith or 10 years prior 1994
Exclusions	-3 step provision (Art. 9.2 Berne & Trips 13) -10 Berne. Quote, teaching purpose -10 bis Berne. Reproduction for news reporting	-14.6 Trips  15. Rome (private use, reporting, ephemeral,	6sixies Paris protection v/s registration of service marks  17 Trips, fair use	27.2 TRIPs morality, ordre public  27.3 Trips plants animal therapeutic methods  30 Trips	24.5 trademarks in good faith  24.6 Generic term  24.7 to 24.9 TRIPs

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- **1.3 Sources of Unauthorized use with no infringement. Table N°1 (cont.). Limitations**

	Copyright	Related rights	Trademark	Patents
Other Limitations	11 bis 3 Berne ephemeral recording, archive purposes 13.1 Berne right of recording musical works Article 30(2)(b) Berne, "ten-year rule" to exercise right of translation for some countries. 11bis(2) Berne Broadcast and communicate to public, rebroadcast	15.2 Rome		34 Trips, process patent burden of proof
Compulsory licensing	40 Trips	40 Trips	40 Trips	5A2 & 5A4 Paris 31 Trips, unauthorized use
Anti competitive practices				40 Trips

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- **1.3 Sources of Un authorized use with no infringement. Table N°1 (cont.). Other**

	<b>Copyright</b>	<b>Related rights</b>	<b>Trademark</b>	<b>Patents</b>
<b>Duration of protection</b>	Berne & Trips 50 Y	Trips 50 Y Phonograms 20 Y	Trips (18), 7Yindefinetely	Trips (33) 20 Y from filing
<b>Requirement Definition</b>			6.1 Paris conditions registration 15 Trips 1 visually perceptible 2.other grounds non registration 3 Use registrat	29 Trips disclosure Definitions of invention, novelty, inventive step, industrial application
			5C1. Paris Use for registration	

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**1.4 Special case: counterfeiting Medicines**

■ **Operational Definition WHO (November 2003) (v/s agreed language)**

“Counterfeit medicines are part of the broader phenomenon of substandard pharmaceuticals. The difference is that they are deliberately and fraudulently mislabeled with respect to identity and/or source. Counterfeiting can apply to both branded and generic products and counterfeit medicines may include products with the correct ingredients but fake packaging, with the wrong ingredients, without active ingredients or with insufficient active ingredients.”

■ **How much involves IP infringement? How does this relate to cross country differences in IP law or protection?**

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■ **1.4 Table 2. Medicines: Counterfeit types and IP infringement**

Product X's IP Sold/produced in country i i=A,B	Counterfeit 1 (contains active ingredient) <sup>1</sup>	Counterfeit 2 (no active ingredient) <sup>2</sup>	Similar (contains active ingredient) <sup>3</sup>	Product X's IP Sold/produced in country i i=A,B	Counterfeit 1 (contains active ingredient) <sup>1</sup>	Counterfeit 2 (no active ingredient) <sup>2</sup>	Similar (contains active ingredient) <sup>3</sup>
<b>Country A</b>				<b>Country B</b>			
<b>Product 1 (Brand name drug)</b>				<b>Product 1 (Brand name drug)</b>			
Trademark Patented in A	Infraction	Infraction	No infraction	Trademark Patented in A	Infraction	Infraction	No infraction
effects	Consumer Deceived	No infraction	Dependson patent	effects	No infraction	No infraction	No infraction
		Consumer Deceived			Consumer Deceive	-Consumer Deceive	
		Security hazard				-Security hazard	
Case from Universe	Yes	Yes	No -ingred	Case from Universe	Yes	Yes	No
<b>Country A</b>				<b>Country B</b>			
<b>Product 2 (generic drug)</b>				<b>Product 2 (generic drug)</b>			
No Trademark	No infraction	No infraction	No infraction	No Trademark	No infraction	No infraction	No infraction
No Patent in A	No infraction	No infraction	No infraction	No Patent in A	No infraction	No infraction	No infraction
effects	Consumer Deceive	-Consumer Deceive		effects	Consumer Deceive	-Consumer Deceive	
		-Security hazard				-Security hazard	
Case from Universe	No	No	No	Case from Universe	No	No	No

WHO, 46 confidential and unverified reports from 20 countries (2003)

- 15.6 %: Products with correct quantities of active ingredients but with fake packaging;
- 73.7 %: Products without active ingredients, 32.1%: Products with incorrect quantities of active ingredients, 20.2%; Products with wrong ingredients, 21.4%.
- Copies of an original product, 1%;

Products with high levels of impurities and contaminants, 8.5%.

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**1.5 Summary of IP considerations**

- WTO Countries agreed to prevent counterfeiting in goods, but have only agreed on defining counterfeit in **trademark goods** and **pirated copyrighted goods**.
- Expansion to other categories may render limited support outside OECD.
- Any scope expansion should address at least minimal elements of TRIPs footnote 14
- Unauthorized use, necessary but not sufficient condition for counterfeit/piracy
- Protection: country specific matter. Country law specificities/type/level of protection render subject matter protected in some countries and not in others.
- Infringement is also country specific matter
- Example of difficulties: patents (medicines) protected in both countries, it is difficult to determine ex-ante, if patent is being infringed by a *similar* product, particularly if protected subject matter refers to issues other than the active ingredient (form or presentation of molecule, process patent, etc.). Patent infringement must be declared by judicial or other competent authority.
- Need for country specific data on IP protection/ IP infringement

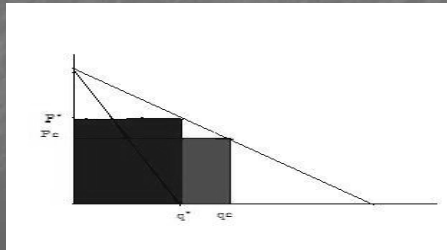
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**2. Determining economic impact of counterfeiting and piracy**

2.1 Benchmark focus

Benchmark variable 1: Profit level under no counterfeiting/piracy (blue area)

Benchmark variable 2: Net welfare of producers and consumers under no counterfeiting (including dynamic effects on investment)



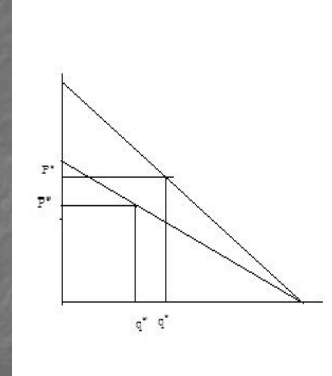
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- 2.2 Assumptions
- Degree of substitution between legitimate and counterfeit/pirated goods (Do they belong to the same demand function?)
  - Copyright piracy: very high degree
  - Trademarked counterfeited goods: depends
  - Patent infringement : very high degree
  - Counterfeits of variable quality standard: possible to order demand (high willingness to pay for legitimate, low willingness to pay for bad quality counterfeits (separating equilibrium?))

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**2.3 IP legislation/protection and Demand**

- Possible to argue that Demand depends parametrically on IP protection.
- The more protection for IP, the higher willingness to pay, the higher demand for good (more attributes).
- The more rights in the public domain, the lower willingness to pay for good (the attributes assigned to purchase are limited, the rest are fully exploited/consumed for free)
- At price=0 quantity of demand is identical (maximum consumption)
- Identical countries but different IP law, would have different Demands and therefore, benchmarks.



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**3 Conclusions**

- Country level specificities in IP law are needed for:
  - Determining Demand level parameter
  - Infringement differences among countries for same type behavior
- Focusing the scope of infringement types/goods included