



European Communities Trade Mark Association

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FREE TRADE ZONES IN NON-EU COUNTRIES: GENERAL RECOMMENDATIONS, BEST PRACTICES, AND GUIDELINES

I. INTRODUCTION

On 23 June 2017, following stakeholder input (including from ECTA), the European Commission's Directorate General for Trade (DG TRADE), in conjunction with the European Union (EU) Intellectual Property Office (EUIPO) and the Organisation for Economic Co-operation and Development (OECD), published a report on 'Mapping the Real Routes of Trade in Fake Goods' which mapped counterfeit trade routes across the globe.

According to a subsequent report released on 15 March 2018 by the EUIPO/OECD, the larger the role of free trade zones (FTZs) in a country's economy, the greater the value of fake products that the country exports; an extra FTZ within an economy increases the value of counterfeit goods exported from that country by 5.9%. Due to light regulation and reduced Customs controls, FTZs are attractive locations for parties engaged in illegal and criminal activities.

In these days of globalisation and integration, FTZ rules and operations should be deeply harmonised, not only within 'integration blocks', such as the EU, Mercosur, etc., but even regionally and, if possible, globally.

It should be recalled that, under public international law, despite the general rule providing for "Freedom of Transit" contained in Article V of the GATT 1994, another general rule also enshrined in GATT, i.e. Art. XX(d), provides that:

"... nothing ... shall ... prevent the adoption or enforcement by any contracting party of measures ... necessary to secure compliance with laws ... relating to ... the protection of ... trade marks ... and the prevention of deceptive practices".

DG TRADE has now asked ECTA to provide any additional recommendations, best practices, and/or guidelines for the operators of FTZs.

ECTA has gathered information from various countries, in which members have had some experience in dealing with problems relating to counterfeit goods in FTZs. Contributions have been received from members in the following countries: UAE, Poland, Malta, Paraguay, China, Uruguay and Peru.

II. GENERAL RECOMMENDATIONS, BEST PRACTICES, AND GUIDELINES

Dealing with documents within FTZs is not easy as there is no universal best practice or sufficiently clear regulation of FTZs' documentation, which has caused many complicated problems. Various questions have been raised, including:

- Who issues the Certificate of Origin for Goods exported from FTZs (for example: the Ministry of Economy or the Chamber of Commerce)?
- A Certificate of Origin must certify that at least a 40% value addition (in manufacturing) has occurred in the place of origin. Is this value addition verified for each shipment from FTZs?
- Who issues Certificates of Provenance for Goods re-exported through FTZs?
- Information that a shipper provides on a bill of lading is basic and may not be properly verified in each instance when moving goods to FTZs.

To achieve legislative and regulatory improvements, along with general policy measures and suggested best practices regarding illicit activities in FTZs, four major tools need to be considered:

- i. Legislate to enhance penalties. Trans-shipment and the transit of counterfeit goods to countries where the marketing of these goods would infringe a trade mark should be a trade mark infringement by itself *and* a crime.
- ii. Review and streamline the practice for issuing Certificates of Origin/Provenance.
- iii. Targeted Risk Assessment. While the inspection of all containers is impossible, 'special risk' assessment operations are always possible and would certainly cause disruption in the movement of counterfeit goods.
- iv. Prioritise measures against counterfeiters over the reduction in revenues of the FTZ operators.

The following are recommendations, suggested key national legislative provisions, and associated regulatory measures for implementation:

1. National Governments

Governments should be aware of the fact that the freedom of transit principle enshrined in Article V of GATT 1994 may be limited in accordance with Article XX(d) of the same Agreement. Hence, with a view to tackling international trade in counterfeit goods, they should:

- Empower the Customs authorities with jurisdiction over FTZs' day-to-day operations.

- Review and implement national intellectual property rights (IPR) legislation. Include language that makes legislation applicable to goods in the national territory, including transit and FTZ regimes.
- State that the discovery of prohibited goods in FTZs may result in civil and criminal penalties.
- Grant the Customs authorities *ex-officio* power to detain goods suspected of infringing IPR, including goods in FTZs, SEZs, free ports, and the like. In Uruguay, for example, both the Trade Mark Law (17.011) and the FTZ Law (15.921) allow action to be taken against counterfeit goods in FTZs.

Since FTZs may not only be used as “transit hubs”, but also to import counterfeit goods, the Customs authorities should, at the very least, increase their efforts to inspect imported goods in FTZs.

- Non-EU countries that are not yet a contracting party to the Revised Kyoto Convention (such as, inter alia, Peru) should be strongly encouraged to accede to and ratify this Convention, including Annex D, Chapter 2 which contains provisions, standards and recommended practices on FTZs. In the meantime, until the above step is taken, an immediate way to address this situation would be if, through legislation, the Revised Kyoto Convention’s provisions are considered as guidelines.

2. FTZ Operators

- Regulation (at the very least, self-regulation) should be promoted in the following areas to prevent piracy and counterfeiting:

Customs Supervision & Control

- a. Enable the national Customs authorities with unrestricted rights to: enter and observe day-to-day operations; audit the books and records of companies in the FTZ; and validate the status of goods and conformity with tariff and non-tariff measures under the national Customs authorities’ mandate;
- b. Enable cooperation between the Customs authorities and the special authorities of FTZs to ensure efficient enforcement of the laws;

Licensing

- a. Establish a licensing or control system to conduct any of the following activities by any natural or legal person:
 - manufacturing, importing, exporting; and,

- for tobacco products, in accordance with the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, the requirements should be extended to brokering, freight-forwarding of tobacco products, raw materials, manufacturing equipment for the production of tobacco products and any other key inputs necessary for the production of tobacco products;
- b. Establish or designate a competent authority or authorities to issue, renew, suspend, revoke and/or cancel licences, in accordance with national law, for conducting the activities specified in point a;
- c. Require that each application for a licence contains all the requisite information about the applicant required by law, where applicable.

Due Diligence & Record-Keeping

- a. Any natural or legal persons conducting business in FTZs should be required to:
 - i. conduct due diligence before starting and then during the course of a business relationship with other entities.
 - ii. monitor the sales to their customers to ensure that the quantities are commensurate with the demand for such products within the intended market of retail sale to avoid diversion and under-declaration.
 - iii. establish accurate inventory controls on goods entering and leaving the FTZ.
- b. For highly-taxed products, licensees should be required to produce on request, the following information to the appointed authority:
 - i. General information on market volumes and related trends in the market of retail sale.
 - ii. The quantity of finished goods and manufacturing equipment in the licensee's possession.
 - iii. The products kept in custody or in stock, including in tax and Customs (or other) warehouses, under the transit, trans-shipment, or duty suspension regimes.
- c. For licensees exporting highly-taxed goods from FTZs, they should be required to provide on request information regarding:
 - i. The destination market.



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- ii. The identity of the transporter, freight-forwarder or broker.
- iii. The shipment's estimated time of arrival.
- iv. The shipping route.
- v. Details on the products shipped, including the quantity and intended market of retail sale.

Compliance with Labelling Requirements

- a. Any natural or legal persons conducting business in FTZs should also ensure that all products that are manufactured and/or repackaged in FTZs, and/or being trans-shipped through FTZs, bear the appropriate labelling requirements of the intended market of retail sale.
- b. All products that do not comply with the destination markets' labelling requirements should be declared illegal and should be destroyed. Entities dealing with such products should be subject to the appropriate legal proceedings and/or penalties.

Tracking & Tracing

- a. All products manufactured in or transiting through FTZs (individual units or the smallest unit of packaging) should be affixed with unique, secure and non-removable identification markings to enable effective tracking and tracing.
- b. Ensure that the following information forms part of the unique identification markings:
 - i. The date and location of manufacture.
 - ii. Manufacturing facility's details.
 - iii. The product description.
 - iv. The intended market of retail sale.
- c. To facilitate traceability, supply chain traceability should be ensured through the linking of the unique identification marking of outer packages with the unique identification marking of containers.

Again, reference can be made, regarding the foregoing recommendations on due diligence and record-keeping, labeling requirements and tracking and tracing, to the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, for example.



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Information-sharing

For the ease of goods' status validation, consider the interface and exchange of data with the national Customs' automated systems.

Training

FTZ operators should have relevant staff members who are trained on the specifics of international, EU and national law in the matter of counterfeit "non-Union" goods that transit through the FTZ in question. Those staff members should be aware of, among other things:

- Article XX(d) of GATT 1994 (see above).
- Article 10(4) of Directive (EU) No 2015/2436 and Article 9(4) of Regulation (EU) No 1001/2017.
- any provisions analogous or similar to those existing in the EU, in which the Customs authorities are authorised, under the law of the country where the FTZ is established, to conduct checks on goods that are the subject of suspensive arrangements and to detain them when they are suspected of being the subject of a trade mark infringement under that country's trade mark law or the law of the country of destination.

Unlawful conducts

It should be clearly defined which provisions will be declared as unlawful for noncompliance, and the appropriate national law penalties should be imposed, where applicable.

As an example of best practice, a 'courtesy' translation of a Resolution of the Panamanian Ministry of Economy and Finance is attached; its focus is on money-laundering and the financing of terrorism and the measures mainly concern due diligence.

Additional recommendations, best practices, and guidelines for FTZs established in key production countries

Regarding key production countries (such as China), in addition to the foregoing, there should be unified and operative trade mark infringement criteria for OEM products. The common view is that, if all the OEM products are exclusively for export, it does not constitute a trade mark infringement in China. However, in practice, to avoid being a country exporting counterfeit goods, some factors should be considered, such as the authenticity of the



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manufacturing contract, and whether the trade mark has been registered in the overseas importing country.

Additional recommendations, best practices, and guidelines for FTZs (Example of Peru)

Regarding the situation in Peru, the following (additional) recommendations should be taken into consideration:

While, in principle, regulations are already in place in Peru, the key problem is that they either are not applied or not adequately applied.

Public prosecutors and judges need training in the areas of Customs law and intellectual property law: most of the legal professionals involved do not understand the technical issues that are at stake in these areas of law.

Training programmes for Customs officials (including procedures for monitoring business activities in FTZs) should be created and be given continuity. To efficiently address the special circumstances related to FTZs, the Customs authorities require highly-skilled personnel.

An 'open door' policy should be promoted among FTZ operators for the national Customs authorities to observe physical operations and verify compliance with tariff and non-tariff requirements.

A database of natural and legal persons that have been identified as violating IPR in FTZs (and outside the FTZs), as well as a database of trade marks and other elements protected by IPR that enter and exit national territory in all Customs regimes (including FTZs), should be established and made available to the public.

III. FINAL REMARKS

We hope that the above comments are of help to you. Should you need any clarification or further information on any of the points raised we will be happy to provide such further input.

ECTA

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ECTA, which was formed in 1980, is an organisation concerned primarily with trade marks and designs. ECTA has approximately 1,500 members, coming from all the Member States of the EU, with associate Members from more than 50 other countries throughout the world. ECTA brings together those practicing in the field of IP, in particular, trade marks, designs, geographical indications, copyright and related matters. These professionals are lawyers, trade mark and patent attorneys, in-house lawyers concerned with IP matters, and other specialists in these fields. ECTA does not have any direct or indirect links to, and is not funded by, any section of the tobacco industry.



The extensive work carried out by the Association, following the above guidelines, combined with the high degree of professionalism and recognised technical capabilities of its members, has established ECTA at the highest level and has allowed the Association to achieve the status of a recognised expert spokesman on all questions related to the protection and use of trade marks, designs and domain names in and throughout the European Union, and for example, in the following areas:

- Harmonization of the national laws of the EU member countries;
- European Union Trade Mark Regulation and Directive;
- Community Design Regulation and Directive;
- Organisation and practice of the EUIPO.

In addition to having close links with the European Commission and the European Union Intellectual Property Office (EUIPO), ECTA is recognised by WIPO as a non-Government Organisation (NGO).

ECTA does also take into consideration all questions arising from the new framework affecting trade marks, including the globalization of markets, the explosion of the Internet and the changes in the world economy.