UKRAINE

PROMOTING AND PROTECTING INTELLECTUAL PROPERTY IN UKRAINE
About the International Chamber of Commerce (ICC)

ICC works to promote efficient intellectual property systems that support international trade, encourage investment in creation and innovation, and facilitate sustainable economic development.” It believes that IP protection encourages innovation and the development of knowledge-based industries, stimulates international trade, and creates a favorable climate for foreign direct investment and technology transfer.

About BASCAP

Counterfeiting and piracy have become a global epidemic, leading to a significant drain on businesses and the global economy, jeopardizing investments in creativity and innovation, undermining recognized brands and creating consumer health and safety risks. In response, the ICC launched BASCAP to connect and mobilize businesses across industries, sectors and national borders in the fight against counterfeiting and piracy; to amplify the voice and views of business to governments, public and media; and to increase both awareness and understanding of counterfeiting and piracy activities and the associated economic and social harm. Visit BASCAP on the web at: www.iccwbo.org/bascap

About ICC Ukraine

Ukrainian National Committee of the International Chamber of Commerce (ICC Ukraine) is the first national committee in CIS countries that, in 1998 got an approval to introduce the WBO tendencies in Ukraine and is currently uniting the big and medium national enterprises as well as non-residents. ICC Ukraine is a nonprofit, non–government organization.
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Acknowledgements

“Promoting and Protecting Intellectual Property in the Ukraine” is a 2014 report produced by the International Chamber of Commerce’s initiative Business Action to Stop Counterfeiting and Piracy (BASCAP) and ICC Ukraine. ICC/BASCAP connects and mobilizes business across industry sectors and national borders in the fight against counterfeiting and piracy. BASCAP aims to compel government action and the allocation of resources towards strengthened intellectual property rights enforcement and to create a culture change to ensure that intellectual property is respected and protected. ICC Ukraine is a leading voice of international business in Ukraine on a wide range of topics of interest to businesses operating in or interested in doing business in Ukraine.

This report outlines the value of Intellectual Property (IP) in Ukraine and provides comprehensive policy and legislative recommendations to advance the Ukrainian Intellectual Property Rights (IPR) protection and enforcement regime. The report has benefited from contributions of BASCAP member companies, many operating in Ukraine, in the development of the report’s recommendations.

The report has also benefited from the contribution of INTERPOL’s Office of Legal Affairs, which conducted a review of Ukraine’s criminal legislation in relation to IP rights and offered suggestions for the updating of Ukraine’s criminal IP legislation, including the ratification and implementation of a number of international treaties directly or indirectly relevant for IP protection in the criminal law area. INTERPOL’s Office of Legal Affairs supports governments in their efforts to establish more effective legal responses to illicit trade and counterfeiting. In addition to providing training to those involved in the criminal justice process (including law enforcement officers, prosecutors and judges) to help them better understand the problem and carry out effective prosecutions, INTERPOL offers legislative drafting advice for law-makers. For more information please visit: http://www.interpol.int/Crime-areas/Trafficking-in-illicit-goods-and-counterfeiting/Legal-assistance and contact: OLA-TIGC@interpol.int.

The report also benefited from insights and contributions provided by ICC Ukraine and by the Ukraine Alliance Against Counterfeiting and Piracy (UAACP) for the development of the legislative recommendations of the report. In addition, the International Trademark Association (INTA) provided input on the report’s policy and legislative recommendations.

The analysis contained in this report, including INTERPOL’s analysis on Ukrainian criminal law, is preliminary and not exhaustive. It has been conducted on the basis of publicly available information and is not intended to replace a more in-depth examination that could be developed on the basis of dialogue with Ukraine’s competent authorities.

ICC/BASCAP and ICC Ukraine hope that the Ukrainian government authorities find the recommendations in this report useful in identifying legal and policy reforms needed to strengthen the IP regime, and a helpful addition to the dialogues for finalizing the National Strategy of the Development of the Field of Intellectual Property in Ukraine through 2018. A comprehensive national IP strategy that includes a significant number of policy and legislative reforms such as those recommended in this report, will go far in demonstrating that Ukraine is committed to delivering incentives for growth, innovation and technology development that effective IP rights and enforcement can help to provide.
Companies are increasingly investing in creativity, innovation and other forms of intellectual assets generally known as intellectual property or “IP”, as a vital strategy to grow, stay competitive and deliver innovative products and services to the marketplace.

Governments also are increasingly recognizing the critical role that IP plays in driving innovation, development and jobs, and are investing in national capabilities for innovation and creativity. They have increased their investment in university research, incubation centres and public-private R&D projects; and they are delivering better services to help companies develop and commercialize trademarks, copyrights and patents.

At the same time, many governments have recently undertaken efforts to upgrade their legal and practical protection of IP. This is because the intangible nature of intellectual property renders it vulnerable to theft and other infringements. The global proliferation of counterfeiting and piracy drains economies of revenue and jobs and puts downward pressure on innovation, international trade and investment. In response to this threat, governments have introduced new and stronger legislation, embraced the international treaties in the IP field, stepped up law enforcement and invested in IP protection and awareness through training, judicial systems and border control.

These steps reflect an understanding of the value of intellectual property, its role in attracting technology transfer and foreign direct investment and its benefits for empowering small and medium-sized companies. The protection of IP and IP rights helps ensure that consumers have access to a steady stream of innovative, legitimate and safe products and services.

Perhaps most importantly, these governments recognize that effective IP protection is a crucial contribution to their goals to encourage investment in IP and innovation. In this regard, efforts to strengthen IP enforcement regimes are viewed as net costs, but rather investments that pay tangible dividends in economic development and social benefits.

Ukraine is at a critical point in its transition for a fully developed economy, and the importance of IP to its ambitions for innovation, economic development and increased foreign investment are directly tied to its ability to make IP a public policy priority and create an environment that respects and encourages the creation of new intellectual property and protects existing IP rights.

**The value of IP**

Chapter 1 explains the value of intellectual property and why it is important to Ukraine’s economic growth and development.

- IP protection benefits the economy in terms of GDP, employment, tax revenues, development and competitiveness. For example, copyright-related industries account for nearly 400,000 jobs in Ukraine, exceeding the employment contribution of many other important industrial sectors.

- IP rights (IPR) promote foreign direct investment (FDI) and technology transfers. With Ukraine’s technology and services sectors rapidly gaining on manufacturing as the engine of FDI growth, robust IPR legislation and strong enforcement will be important for Ukraine to fully realize its FDI potential.

- IP protection promotes innovation, increases funding for R&D and helps firms realize more value from innovations. For transition countries such as Ukraine, real economic growth will depend on their ability to create an environment which stimulates and supports innovation and a strong IPR regime will be critical to achieving its aims to support innovative business and increase demand for innovation throughout the economy.
• IP promotes cultural expression and diversity, promotes the dissemination of new technologies, and promotes development. For example, the OECD has found that a 1% increase in the strength of copyright protection, a basic and key form of IPR protection, in developing countries correlates to a 3.3% increase in domestic R&D. A similar increase of trademark and patent protection, two other critical parts of an effective IPR regime, correlates to increases of 1.4% and almost 1% in domestic R&D, respectively.

• IP helps firms monetize their inventions and grow. A firm’s ownership of IP rights helps to reassure investors that they should inject money into the company. The use of IP in fostering investment is not only important for established firms that are already reliant on patents, trademarks and copyrights for protecting their value, innovation, and reputation, but even more so for new firms seeking to establish a secure stream of investment and innovation.

• IP protection helps small and medium enterprises, and this group of businesses is critically important in Ukraine. Medium and small enterprises account for 34.5% and 26% of total employment, respectively, in Ukraine. Medium enterprises account for 37.8% of total volume of products (services) sold while small enterprises represented 16.6%.

• IP protection benefits consumers and society, providing consumers with innovative products and services in virtually every area of life—from clean energy to health care—and helping protect consumers from inferior and dangerous counterfeits.

What’s at risk?

Chapter 2 explores the problem of counterfeiting and piracy in Ukraine. This chapter gathers evidence from a range of sources on the incidence and magnitude of the counterfeiting and piracy in the Ukrainian economy.

The Ukraine Alliance Against Counterfeiting and Piracy (UAACP), for example, has estimated that the value of fakes in Ukraine could be as high as USD 1.3 billion per year but may be much more. Counterfeiting and piracy make up a very large component of the ‘black economy’. According to other estimates the losses to trademark counterfeiting in Ukraine were close to USD 710 million and the combined losses of music, movie and software copyright piracy added another USD 720 million—constituting as much as 33% of Ukraine’s total black market. Most of the counterfeit goods on the Ukrainian market are not produced domestically but imported.

The time is right for action

Chapter 3 suggests that the time is right for Ukraine to continue strengthening its IP rights systems in cooperation with established international channels and trading partners who stand ready to assist Ukraine in proceeding with necessary policy and legal reforms.

Most recently, the Ukrainian Government has undertaken the process of drafting a National Strategy of the Development of the Field of Intellectual Property in Ukraine for the period of up to 2018. This is a strong indication that Ukraine is committed to strengthening its IP rights regime and evolving to a leadership role in improving IP protections and creating more effective mechanisms for preventing and fighting counterfeiting and piracy.

The process of establishing the new National Strategy also has enormous potential for advancing Ukraine’s commitments to bringing its trade laws and practices into compliance with WTO-TRIPS rules, following from its accession to the WTO in 2008. Progress in this area will be useful to Ukraine’s ongoing dialogue with the EU and US governments.
Moreover, newly elected Ukrainian President Poroshenko has stated that European integration will be among his initial priorities, providing an opportunity to include IP protection and enforcement in such measures across the board.

**Recommendations for a path forward**

To reach the target of creating a robust IP protection and enforcement regime capable of generating and preserving the significant benefits that lie ahead in Ukraine’s future, Chapter 4 provides a comprehensive set of suggested recommendations intended to help Ukraine address certain remaining challenges. This set of recommendations includes a wide range of policies and actions, from legal reforms and policy actions to technical assistance and capacity building measures, channels for international cooperation and tools for strengthening enforcement practices. An indispensable requirement for meeting this target is the effective and immediate implementation of such concrete suggestions. The establishment of an IP authority with the task of putting the recommendations in place is of utmost importance in this regard.

**Summary of suggested recommendations**

**Legislative recommendations**
- Address deficiencies in criminal IP law and procedures
- Improve action against Internet infringements
- Address inadequacies in civil enforcement procedures
- Address legal deficiencies of IP protection regime
- Improve administrative enforcement procedures
- Improve customs enforcement procedures

**Policy Recommendations**
- Improve coordination among enforcement authorities in addressing counterfeiting and piracy, including among the police, judiciary and Customs.
- Establish effective dialogue and cooperation between Ukrainian authorities, IP rights holders and other stakeholders
- Expand IP-related administrative and technical capacity building
- Increase awareness of counterfeiting and piracy and the associated economic and social harm among policy makers and the general public
1. Intellectual property is important to Ukraine’s economic growth and development

Creativity and innovation are proven drivers for economic growth and competitiveness. Research has shown that economic growth is closely related to how well the economy encourages, stimulates and fosters creativity and innovation. A critical factor in maximizing the value of this creativity and innovation is a clear legal and regulatory system that recognizes the importance of the underlying intellectual property and establishes and protects the property rights of the creators, inventors and innovators.

The effectiveness of a country’s intellectual property rights (IPR) regime is a critical element for unlocking a nation’s full innovative capacity. An effective IPR regime releases the potential of inventors and creators, and empowers them to transform ideas into high-quality products and services that create jobs and stimulate economic growth. The protection of these intellectual assets is increasingly important in enabling countries to reach their economic development goals.

**IP benefits the economy**

Strengthening intellectual property rights is increasingly being recognised as a significant contributor to a country’s economic development, technology transfer, and increased rates of innovation. IPR attracts foreign direct investment (FDI) and promotes Research and Development (R&D), and technology transfer in developing countries. IPR is also an important component of many industries, ensuring growth in value-added jobs and foreign trade.

A wide range of economic studies, from NGOs, government, and industry, have confirmed that sectors that rely on IP protection are substantial contributors to the economy. A recent study by the World Intellectual Property Organization (WIPO), for instance, shows that copyright-related industries account for 2.85% of Ukrainian GDP. Though small compared to some of the more dominant industrial sectors, such as the processing industry (14.5%), trade (12.7%), and transport and related activities (10.8%), it is comparable to the contributions of other important sectors such as electric power, gas, and water (3.4%), health care and social assistance (3.1%) and construction (3.7%).

There are also other indicators of the contribution of copyright-related industries to the Ukrainian economy. Copyright-related industries account for nearly 400,000 jobs in Ukraine, exceeding the employment contribution of many other important industrial sectors. The contribution of copyright-based industries to gross production in 2005 was 3.5%, notably higher than education (2.8%) and healthcare/social assistance (2.2%). And copyright-based industries’ contribution to gross value added (GVA) in 2005 was 3.3%.

**IP attracts FDI**

FDI is important because it supports economic development through the transfer of technology and managerial skills and through the creation of employment opportunities. According to the United Nations Conference on Trade and Development (UNCTAD) 2012 World Investment Report, Ukraine is a transition economy with FDI inflows of more than USD 5 billion and outflows of less than USD 0.5 billion. The top investors to Ukraine over the past several years have been the United States (12%), Germany (12%), Russia (10%), and France (8%). In 2010, the largest investors came from the European Union (54%) and Russia (16%).

According to a report by Ernst and Young on FDI in Ukraine, despite noting the increasing investments in emerging markets, many investors in 2011 continued to consider Central and Eastern Europe (including Ukraine) as the third most attractive region for investment projects. From 2006 to 2010, Ukraine ranked 10th in the Central and Eastern European region based on the number of investment projects and number of jobs created.
Over the past few years, the Ukrainian financial sector has been the most attractive to foreign investors, accounting for 13% of total FDI into Ukraine, but other developing sectors have been growing more attractive as well, particularly logistics (10% of total FDI projects into Ukraine) and food production (9%). Other sectors that are being targeted for more development are business services and software which accounted for 6% and 13% respectively of investment projects in 2010. The latter is particularly vulnerable to IP theft and would benefit greatly from a robust IP rights protection regime.

In order to improve its macroeconomic stability—including measures to attract more FDI—the Ukrainian government initiated a comprehensive reform program in 2010 which included streamlining tax legislation, privatization of the energy sector, and deregulation. The strength of a country’s IPR regime is among the factors that influence firms to transfer technology or invest in a country. For example, the OECD has found that a 1% increase in a country’s copyright protection increases FDI by 6.8%, while similar increases in trademark and patent rights correlate to increases in FDI of 6.8% and 2.8%, respectively.

**IP promotes innovation**

Innovation is a key ingredient of sustained economic growth, development, and better jobs. Studies have estimated that innovation accounts for as much as 80% of economy-wide growth in productivity in high-income countries. Although less is known about innovation and its economic impact in low- and middle-income economies, available evidence suggests that innovating firms in those economies are also more productive than their non-innovating peers.

For transition countries such as Ukraine, real economic growth will depend on its ability to create an environment which stimulates and supports innovation. According to experts, Ukraine’s productivity is stifled by political instability, limited access to financing, corruption, bureaucracy, and the economy’s relatively weak level of technology transfer. There is also a weak linkage between research and industry. Innovation remains a challenge in the country since, according to 2008 figures, only 13% of industrial enterprises were involved in innovative production.

Innovation, however, must not be limited to technological enterprises although they still remain crucial for international competitiveness. Sustainable economic growth will require innovation in all areas, such as knowledge-based services, organization of business, marketing, and many others. A feature of a well-functioning market is the constant collaboration and interaction among large, medium-sized and small companies. Furthermore, firms also collaborate more and more with the academia, universities, research institutes, and other external producers of knowledge. These public-private partnerships were established to foster technological development.

**IP promotes R&D and technology transfer**

IPR promotes cultural expression and diversity, promotes the dissemination of new technologies, and promotes development. For example, the OECD has found that a 1% increase in the strength of copyright protection, a basic and key form of IPR protection, in developing countries correlates to a 3.3% increase in domestic R&D. A similar increase of trademark and patent protection, two other critical parts of an effective IPR regime, correlates to increases of 1.4% and almost 1% in domestic R&D, respectively.

In 2009, Ukraine’s total R&D sector was composed of about 55% from the private sector (business sector R&D) while the rest consisted of government and higher education R&D.

According to a report prepared by the European Neighbourhood Policy Instrument, Ukraine’s R&D potential is not maximized when it comes to commercializing research results to industry. The study shows that Ukrainian companies prefer to buy technology abroad instead of elaborating technology solutions with Ukrainian public research institutions and universities. There is also very little communication and operative interaction between academia and the business environment.
Appropriate IPR protection is often a precondition for international investors to disclose technology to licensees in developing countries, especially in areas involving easily imitable technologies such as software and pharmaceuticals, and hence can affect chances of attracting equity investments or non-equity modes of involvement (e.g., licensing). IPR can also be a means of encouraging independent research activities by local companies, because businesses are more likely to invest in resources in R&D and technological upgrading if their innovations are protected. In addition, effective IP protection also attracts venture-capital investment for R&D and for the commercialization of innovative products and services.14

Firms can earn substantially more from innovations that are protected by IPR. On average the `patent `premium` for patented versus unpatented inventions is between 180% and 240% depending on the industry. In other words, patents on average double the value of an invention. The more valuable a patent, the more R&D takes place. A 10% increase in the patent premium leads to a 6% increase in business and R&D expenditure.15 IP ownership has therefore become more central to the strategies of innovating firms. Demand for patents has risen from 800,000 applications worldwide in the early 1980s to nearly 2 million in 2010 (1.98 million).16

**IP helps firms monetize their inventions and grow**

Firms use IPR to help develop, create value, conduct trade and benefit from their works and inventions. A firm’s ownership of IP rights helps to reassure investors that they should inject money into the company. The use of IP in fostering investment is not only important for established firms that are already reliant on patents, trademarks and copyrights for protecting their value, innovation, and reputation, but even more so for new firms seeking to establish a secure stream of investment and innovation. Firms also use their IP to penetrate new and profitable markets, to develop products, services, and processes and to collaborate through licensing or establishing strategic alliances.17

The Ukrainian software sector is rapidly developing and becoming a significant contributor to the economy. It is one of the few sectors that has not experienced a crisis as a consequence of the breakdown of the Soviet Union. According to a report by Munk, Andersen & Feilberg, this sub-sector of the economy is growing 30-40% annually and Ukraine is emerging as a low cost site for high-quality software development with a growing offshore programming industry. Ukrainian programmers have competed with the best in the world and they now possess all required up-to-date technical skills. But this important sector is vulnerable to various IP-related crimes. IP protection is crucial to the economic development of Ukrainian software sector.18

Likewise, the Ukrainian music industry remains relevant, with UA winning the 2004 Eurovision song contest and never missing a final since. However, despite Ukraine’s long-standing music traditions and well-trained pool of musicians, the sector continues to suffer from underinvestment due to the continued lack of adequate copyright protection and enforcement.

Firms that rely on IP generally succeed better than those that do not. Trademarks and other intangible IP assets can enhance a firm’s market value substantially. An innovative firm’s value in the market or in an acquisition does not just lie in its physical assets—cash, securities, plant, property, equipment, raw materials or finished goods—but also in its ‘intangible assets’ such as the value of the firm’s intellectual property, including its brands. These intangible assets can represent a much bigger part of an innovative firm’s market value than its physical assets.19

**IP protection helps small and medium enterprises**

SMEs are important contributors to innovation and creativity. Traditional economic theory and empirical studies have demonstrated how large companies are a major source of innovation, given that they may have greater funding than small firms to devote to R&D, greater ability to take the risks associated with innovative activity, better economies of scale, and thereby a lower marginal cost of innovation.20 However, a large body of evidence
also shows that SMEs, especially young firms, contribute greatly and increasingly to the innovation system by introducing new products and adapting existing products to the needs of customers.21

Notably, the use of IPRs can have several advantages for SMEs.22 Those SMEs that use IPR report faster growth and higher income and employment than those that do not.23 For example, SMEs in the EU ICT sector that rely on IPR reported 10% more growth in turnover, market share, and employment, respectively, than those that had not used IPRs.24

Small and medium enterprises are considered to be potentially more innovative due to a lack of entrenched bureaucracy, more competitive markets, and stronger incentives (such as personal rewards). But both large and small firms must make important innovations in order to contribute to the success of today’s economy. A system without enough diversity runs the risk of losing flexibility and the ability to quickly adapt to changes.25

In Ukraine, medium and small enterprises accounted for 34.5% and 26% of total employment, respectively. Medium enterprises accounted for 37.8% of total volume of products (services) sold while small enterprises represented 16.6%.26

The Ukrainian enterprises sector is developing in the complicated conditions of a transition economy, confronted with difficulties such as deficiencies in legislation and market failures. The International Finance Corporation identified the following problem areas in the Ukrainian business environment that hamper SME development: financing, taxation, inspections, permits, registration, licensing, and certification standards.27

The national innovation system and innovation infrastructure (i.e. business incubators, technology transfer centres etc.) must be strengthened in favour of small and medium innovative enterprises. Although Ukrainian legislation in the field of intellectual property rights is being harmonized with that of the EU, effective implementation should be better prioritized.

**IP benefits consumers and society**

IPR supports the development of a continuous stream of innovative, competitive products and services that benefit consumers. IPR promotes consumer trust and more effective protection against counterfeit and pirated goods. IPR is helping to address many of society’s most important needs, from clean energy to health care to a truly ‘digital economy.’

Copyrights provide the basis for the continuous stream of new music and films, ever-improving business, games, software, books, magazines, newspapers, and other published material, photography, and many other related activities. However, high piracy rates, inadequate legal provisions for addressing Internet piracy, poor enforcement procedures and an ineffective State approach to collective management organizations, perpetuates market confusion and a low degree of market licensing (even some State broadcasters remain unlicensed).

Patents boost many products and services that society relies on for health, energy, communication, transportation and many other human and commercial needs. Trademarks support the development of products and services that consumers want and depend on, from clothing and computers to foods and footwear, educational and entertainment products, services, scientific products and even sporting activities.

Consumers benefit from IP not only through the stream of innovative products and inventions and creativity that would otherwise not be created by firms, but also through the rights that protect the identity of well-known goods and services. Trademarks act as signposts of quality and prevent other firms from passing off one brand of good as being the same as another.28 Copyright enables legitimate services, such as the many streaming services to take hold, but only when it is effectively enforced. Services like Spotify and Deezer have already ventured into many developing countries, but cannot easily take hold in Ukraine given the regulatory environment favouring commercial pirate operators over copyright-respecting distributors.
Establishing and promoting an adequate IPR system can also have a significant impact on consumer health and safety, and on consumer protection. Counterfeit goods, including medicines, auto and airplane parts, electrical components, toys, food and beverages and many others, can be dangerous and potentially harm or kill unsuspecting consumers. These products may contain ineffective or dangerous and untested ingredients, and provide no assurance of safety or efficacy.

Effective IPR rules and strong enforcement of laws and regulations are therefore crucial to protect the health of customers while ensuring that the products are genuine and comply with the required safety standards.
2. Counterfeiting and piracy in Ukraine

Counterfeiting and piracy remain a challenge for the Ukrainian economy. They drain the economy of legitimate products and facilitate an “underground economy” that deprives the government of tax revenues for public services, dislocates thousands of legitimate jobs, undermines investment, creates opportunities for money laundering, raises costs for law enforcement and exposes consumers to dangerous and ineffective products. Overall, IP theft can have serious negative implications impacting a country’s economic growth, citizens’ health and safety, public order and security. Counterfeiting and piracy also generate large profits for organized crime groups and distorts the internal market by encouraging illicit practices within businesses.29

Since counterfeiting and piracy operate outside the law, estimating the exact level of these activities and the harm they do is extremely challenging. Illegal businesses do not report any information on their activities to any government agency, and therefore any measures of the size of illegal businesses (such as total illegal sales) must be estimated by indirect methods.

However, this chapter gathers evidence from a range of sources on the incidence and magnitude of the counterfeiting and piracy challenge the Ukrainian economy is facing. Our assessment shows that while the Ukrainian authorities have made some progress in combating counterfeiting and piracy in recent years, much work remains to be done to bring IPR protections in Ukraine up to international standards.

The Ukrainian Problem—an overview of counterfeiting and piracy

Ukraine has made some efforts to fight intellectual property infringement by bolstering its legal IPR framework. Progress has been made in implementing some of the minimum standards of IPR protection provided for in the Agreement on Trade Related aspects of Intellectual Property Rights (TRIPS) as part of Ukraine’s accession to the World Trade Organisation (WTO) in 2008, and its ambition to increase political and economic integration with the European Union (EU).30 However, further improvement is still needed, in particular regarding commitment at the governmental level to effectively enforce the available laws.

Each year the U.S. Trade Representative prepares a report on the global state of IPR, known as the Special 301 Report. The 2012 Special 301 Report put Ukraine back on its Priority Watch List considering serious and growing concerns relating to counterfeiting and piracy, including piracy over the Internet.31 The report states that “Ukraine made minimal progress in implementing its 2010 IPR action plan commitments, including addressing the government’s use of unlicensed software, amending the copyright law, and increasing IPR enforcement.”32 The report also noted that the number of IP government inspectors in Ukraine had been significantly reduced and that enforcement efforts remain ineffective against the widespread availability of counterfeit and pirated products, many of which are transhipped through Ukraine to third countries while customs officials continue to lack authority to interdict shipments. Moreover, in 2013 the U.S. Trade Representative designated Ukraine as a Priority Foreign Country “due to severe deterioration of enforcement in the areas of government use of pirated software and piracy over the Internet, as well as denial of fair and equitable market access through the authorization and operation of copyright collecting societies”.33 The label of Priority Foreign Country is assigned to countries with the most egregious IPR-related acts, policies and practices with the greatest adverse impact on relevant U.S. products, and that are not entering into good faith negotiations or making significant progress in negotiations to provide adequate and effective IPR protection. It has been seven years since the U.S. Trade Representative last labelled a country to be designated Priority Foreign Country.34 On May 30, 2013, the United States Trade Representative initiated a Section 301 investigation of the acts, policies, and practices identified in the Special 301 Report and which were the basis of Ukraine’s designation as
Priority Foreign Country. Based on the information obtained during the investigation, on February 28, 2014, the U.S. Trade Representative determined that these acts, policies, and practices are unreasonable and burden or restrict United States commerce, but, due to the current political situation in Ukraine, no action would be taken at that time.\textsuperscript{35}

In a 2013 report, the European Commission also reached the conclusion that piracy and counterfeiting in Ukraine remain a major concern. The country has been an EU priority country for years now. This means that Ukraine is among the top countries where IPR protection and/or enforcement is the most detrimental to EU IPR holders. According to the report, Ukrainian legislation lacks adequate provisions ensuring effective enforcement of IPR—in particular for enforcement in the digital environment. In addition, the report states that “concerns have been expressed on whether the Ukrainian government has sufficient political will to improve the situation”.\textsuperscript{36}

According to 2013 USTR “Notorious Markets” list of online and physical marketplaces,\textsuperscript{37} Petrivka Market in Ukraine reportedly housed, in 2012, as many as 300 stands that sell pirated and counterfeit goods, including music, films, games, software, clothing, and shoes. In 2013, it appeared that the overall number of stands selling counterfeit products had diminished, but the prominence of those that remain and the continued widespread sale of pirated products merit additional attention by the appropriate authorities. In addition, with more than 5,000 stalls serving over 100,000 customers per day, Seventh Kilometer Market in Ukraine is regarded as one of the largest markets in Europe. All types of counterfeit and pirated products are available there, from footwear and apparel to music and movies. There has been no publicly reported enforcement activity in the market in the recent past.

How big is the challenge?

There are no official surveys stating the exact percentage of counterfeit goods in the Ukrainian market. The Ukraine Alliance Against Counterfeiting and Piracy estimates that the value of fakes in Ukraine could be as high as USD 1.3 billion per year but may be much more.\textsuperscript{38} Counterfeiting and piracy make up a very large component of the ‘black economy’. According to some estimates the losses to counterfeit goods for Ukraine were close to USD 710 million while the combined losses of music, movie and software piracy added up to USD 720 million in 2008. This would mean that counterfeit goods and piracy together are responsible for approximately 33% of Ukraine’s total black market value.\textsuperscript{39} Most of the counterfeit goods on the Ukrainian market are not produced domestically but imported.\textsuperscript{40}

As explained in section 1 of this report, accurately protecting intellectual property is important to Ukraine’s economic growth and development—especially considering that counterfeiting and piracy extend to almost all categories of products as well as to the innovative sectors. Moreover, counterfeiting and piracy could constitute a threat to security and health.

Key sectors are particularly vulnerable

Given its illegal nature it is challenging to estimate the scale of counterfeiting and piracy. However, our assessment has identified a number of key product sectors that appear particularly vulnerable in Ukraine. Figures have been obtained from public sources, such as international and governmental reports, academic journals and newspapers. While this overview is based only on publicly available information on the prevalence of counterfeiting and piracy in Ukraine, it serves to illustrate the magnitude and scale of the IPR problem.

Software Piracy

The exceedingly high software piracy rates are a significant concern for the Ukrainian economy. In 2011 Ukraine’s estimated 84% software piracy rate was one of the highest in the world. To put things into perspective: the global average was 42%. The commercial value of unlicensed software in Ukraine added up to USD 648 million.\textsuperscript{41} Estimations suggest that the Ukraine software piracy represents a loss of up to USD 260 million in tax revenue for the Ukrainian Government.\textsuperscript{42}
Unfortunately, there is no progress in software piracy control. The piracy rate has been more or less the same over the past several years while other countries have been increasing their efforts to fight software piracy in order to stimulate innovation and strengthen the economy. The IT sector is a major contributor to the Ukrainian economy, but IP enforcement is needed. A joint study of the International Data Corporation and the Business Software Alliance argued that a reduction of the software piracy rate in Ukraine by 10% in the period 2010-2013 would have added up to USD 586 million in new economic activity, around 2000 new IT jobs and approximately USD 88 million in additional tax revenues by 2013. The IT sector is already a major contributor to the Ukrainian economy.43

Critics state that the Ukrainian government has insufficiently addressed software piracy and that convincing copyright protection mechanisms are still lacking.44 Even the Ukrainian government itself has acknowledged using illegal software which constitutes a significant challenge for credible IPR protection. According to estimates there could be as much as a 40% software piracy rate among government ministries.

In addition to its negative impact on the Ukrainian economy (e.g. loss in taxes and by obstructing innovation and technology transfer) software piracy also poses risks to businesses and consumers who are receiving an inferior product that might include viruses or malware. This could leave the users vulnerable to security risks such as theft of personal data. These security risks are especially worrying when—as in the case of the Ukrainian government—it could allow criminals easy access to sensitive state information.45

**Digital/Internet Piracy**

Copyright infringement on the Internet remains a significant problem in Ukraine. Some critics even say that Ukraine has established itself as a “safe haven” for criminal syndicates involved in copyright piracy—in particular for digital piracy of recorded music, films and books (in addition to software piracy as discussed above). Ukraine is one of the few countries in the world with free and pay-for-download pirate music and video websites as well as a source of leading BitTorrent systems and streaming services. In 2012, Ukraine was fifth in the world in terms of the number of connections by peers participating in the unauthorized file sharing on public networks. Furthermore, many notorious websites breaching IPR are being hosted in Ukraine and there is little enforcement against them.46 For example, in 2012 the Ukrainian authorities shut down one of the largest film piracy websites in the world. Over 200 servers and 6,000 terabytes of data were seized. However, the same website was soon active again and the criminal case closed without further action which caused some critics to suggest that government officials might be indirectly involved in the IPR infringements.47 Another illustration of Ukraine being perceived as a safe haven for internet piracy is the website ExtraTorrent.com which professes to be the World’s Largest BitTorrent System. The website is among the top 200 most visited sites in several countries.48

Ukraine has stated that under current Ukrainian law the government needs a complaint from a copyright holder in order to block websites and/or prosecute people for digital piracy, but it claims that the government does not receive many complaints from rights holders.49 But, in fact, the real issue is that there is no clear legal basis in Ukraine for website blocking. Moreover, the Ukrainian telecommunications law provides any “information network operator”—i.e., anyone from an access provider to a blatant pirate—with a blanket exemption from liability for copyright-infringing content. As a result, even torrent operators who traffic in pirated copies can and do advertise openly. The 2012 U.S. Special 301 report encouraged Ukraine to adopt a system of notice and takedown against copyright infringing sites that would provide for the swift removal of material and services breaching copyright, but not such action has been taken.50

While Ukrainian authorities took steps to stop the unauthorized video recording of motion pictures in theatres, recording continues to be a serious concern. Illicit recordings sourced from Ukraine are quickly uploaded to the Internet and burned to optical discs for distribution.52 Furthermore, there are open-air markets in Kiev, Donetsk, Odessa, and Kharkov that are well known for offering pirated music, films, games as well as software.
For example, in February 2012 the inspectors from the State Intellectual Property Service seized 6,000 counterfeit audio and video discs, worth approximately USD 12,500 at the Petrovka market in Kiev.\textsuperscript{52} Although illegal sales points are occasionally raided, often they are neither permanently shut-down nor are their operators criminally prosecuted.\textsuperscript{53} Moreover, pirated goods, such as CD-Rs and DVDs, are also prevalent in retail chains where some shops openly sell pirated products alongside legitimate products.\textsuperscript{54} An additional problem can be identified in the current Ukrainian system for authorizing holograms. There has been ineffective oversight by the responsible authorities in administrating holograms, with holograms for foreign releases of music and films often issued on the basis of false contracts and unverified licenses making the pirate product wrongly "authorized" by the state for distribution. This makes it difficult for law enforcement officials to seize the pirated products. For some industries, one out of two illegal products seized is labelled with a false hologram.\textsuperscript{55} The combined black market value of movie and music piracy is estimated to be around USD 73 million.\textsuperscript{56} The hologram system is utterly ineffective in combatting piracy and has even been used by the Ukrainian government to exert pressure on rights holders that complain about the Ukrainian governments’ failure effectively to address their concerns; such rights holders are threatened that they will not receive holograms if they continue to complain.

Despite all of the above, there was not a single online piracy-related conviction in Ukraine in 2012.\textsuperscript{57}

**Counterfeit Agrochemicals**

Innovative crop protection products help farmers meet the growing demand for healthy and affordable food. Ukraine is increasing pesticide imports every year to facilitate its goal of higher grain production and overall modernization of Ukraine agriculture. Over the past six years Ukraine police and customs have seized hundreds of tons of counterfeit pesticides imported by criminals based in Ukraine, but often the counterfeit pesticides are stolen from government warehouses and illegally re-sold on the black market both in Ukraine and the European Union.

The Ministry of Agrarian Policy and Food of Ukraine estimates that 40 percent of the pesticides imported by Ukraine are made in China and 20% of these pesticides are counterfeit. However, it’s been estimated that up to 50% of these Chinese manufacturers may not be located in China but instead are offshore companies; there is a need for greater transparency in monitoring criminals and their networks to prevent them from smuggling counterfeit pesticides into Ukraine.\textsuperscript{58} Industry representatives consider Ukraine a crucial crossroad for counterfeit pesticides smuggled into the European Union where according to Europol, the trade in counterfeit and illegal pesticides is growing.

Counterfeit pesticides not only violate IPR, but are manufactured by criminals, and these counterfeits are not subject to the extensive strict safety testing requirements of legitimate manufacturers, governments, and pesticide regulators. Counterfeit pesticides can pose a risk to the environment by destroying fields and ruining farmers’ crops and livelihoods. These untested counterfeit pesticides can contain dangerous chemicals and at other times inert ingredients including water or chalk, that still result in crop damage as the plant diseases go untreated. Counterfeit pesticides are not authorized by government authorities and are therefore illegal.

The illegal storage of counterfeit pesticides in ill-equipped warehouses can constitute a high risk for local inhabitants and expose ground water contamination as was illustrated when Ukraine law enforcement officials discovered a warehouse with over 100 tons of counterfeit crop protection products.\textsuperscript{59}

According to a 2010 report, the Ukrainian Ministry of Environmental Protection theoretically accepted responsibility for dealing with IPR infringements for agrochemicals. However, when it comes to practical internal reform—including allocating sufficient human resources—to address infringements, the Ministry has failed to reorganize or accept the additional responsibilities and burdens of destroying seized infringing pesticides or of
seeking prosecution of the criminals and companies engaged in the illegal import and distribution of counterfeit pesticides in Ukraine.\textsuperscript{60}

Recent progress in the system of registration of agrochemicals in Ukraine (grant of marketing authorizations) was marked by the implementation on 26 February, 2013 of the Revision Order amending the Decree no. 149 of the Ministry of Ecology and Natural Resources of Ukraine “On the Adoption of Application Templates Submitted by Businesses for the State Trial and Registration of Pesticides and Agrochemicals.” This revision particularly dealt with supplementing the application form with a non-infringement statement by which the applicant would guarantee that the registration of the respective product would not infringe third party IPRs. This looks like an attempt to implement the patent linkage concept in the procedure of grant of marketing authorizations.

However, in practice the law which governs the procedure of grant of marketing authorizations, namely the law “On Pesticides and Agrochemicals” was not amended accordingly. As a result, although the application form contains a non-infringement statement, the law does not contain provisions which would list IPR infringement as a ground for rejection of an application for the grant of marketing authorizations, or as a ground for their cancellation.

As a result, in recent practice, the Ministry of Ecology has been appealing against most court judgments, cancelling marketing authorizations on the ground of IPR infringement. Thus, the mentioned law requires relevant revisions.

**Counterfeit Pharmaceuticals**

Ukraine is widely regarded as being among the world’s worst offenders for the trading and manufacturing of counterfeit pharmaceuticals. The manufacturing and distribution of counterfeit medicines is a severe public health threat. Fake medicines often contain the wrong ingredients or the incorrect amounts of the proper ingredients and most counterfeit drugs have no active ingredients. They are ineffective in treating diseases and contribute to increasing drug resistance. In addition to threatening public health in Ukraine and abroad, counterfeit drugs hurt the interests of legitimate pharmaceutical producers by stealing their intellectual property and hampering the innovation of new medicines.\textsuperscript{61}

Calculations for the magnitude of counterfeit drugs on the Ukrainian market vary greatly. Some experts state that 7-12\% of the Ukrainian pharmaceutical market consists of counterfeit medicines, while other sources give numbers of 40\% for the total market and 80\% for certain medicines.\textsuperscript{62} This is close to levels found in poorer developing countries. According to the Ukrainian government almost 50\% of the counterfeit drugs are purchased through the Internet, including antibiotics and hormone drugs bearing the marks of well-known manufacturers.\textsuperscript{63}

The Ukrainian State Intellectual Property Service acknowledges that the regulatory system has been insufficiently focused on the evolving dangers of counterfeit medicines, particularly those manufactured and sold in Ukraine. There is also a general lack of control over the import and distribution of pharmaceutical products. Although Ukraine has succeeded in shutting down some pharmacies that sell counterfeit drugs, the legal system fails to effectively prosecute the producers of fake medicines since, until recently, producing counterfeit medicine was not considered a criminal offence and its producers and distributors were not prosecuted.\textsuperscript{64} Moreover, some critics suggest that “corruption remains very high and IP infringements in pharmaceuticals are related to officials’ or politicians’ side businesses, making it difficult to improve enforcement in this country”.\textsuperscript{65}

Fortunately, the Ukrainian government has shown a commitment to increase its efforts to tackle counterfeit drugs. In 2011 the Ukrainian parliament adopted new legislation which criminalizes the production and trafficking of counterfeit drugs. Ukraine was also the first country to ratify an international treaty of the Council of Europe that deals with counterfeit drugs and their production.\textsuperscript{66} However, implementation of commitments made and enforcement of available legal measures will continue to be a crucial issue.
Fake Consumer Goods

According to some calculations, counterfeit goods total 23% of all trademark infringements in Ukraine. Clothes, accessories, food, cigarettes and alcoholic beverages are among the most counterfeited products. Approximately 90-95% of fake goods involve copies of products from foreign manufacturers and approximately 35% of the products of well-known foreign brands in Ukraine are counterfeited. This is equally a problem for local brands, including significant levels of counterfeit local food products such as butter and alcohol.

Fake consumer products are often such good copies of the originals that it is hard to distinguish the fakes from the legitimate products. Open-air markets and kiosks are a major channel for counterfeit goods, but shops and boutiques also sell fake products and internet trade is increasing.

The examples below illustrate the depth and breadth of the trade in fake consumer goods:

- Illegal trade in contraband and counterfeit cigarettes doubled from 5% in 2012 to 10% of the Ukrainian cigarette market in 2013. In the first half of 2013, counterfeit cigarette sales almost tripled to reach 3.3% of the market. According to various estimates, in 2013, illicit cigarettes cost Ukraine around UAH 1.5 billion in lost tax revenue. Apart from the damage to its own economy, the country has also become one of the major sources for smuggled tobacco in the European Union. In 2012, Ukraine accounted for 6.9% of all smuggled cigarettes in the EU. In 2012-13 alone, the Ukrainian enforcement authorities raided and seized three illegal cigarette-manufacturing facilities. In light of these developments, Ukraine should take steps to become party to the Protocol to Eliminate Illicit Trade in Tobacco products.

- Counterfeit fuel allegedly accounts for at least 20% of the total national fuel market.

- The Ukrainian Black Sea port of Odessa is regarded by some as the biggest black market on the European continent. The market caters to wholesale customers who consolidate and smuggle goods into the rest of Europe. For example, in preparation for the European football championship in 2012, there was a thriving trade in counterfeit UEFA merchandise. Some suggest that the market has influential protectors in law enforcement and local authorities.

- In November 2012 almost three tons of counterfeit goods, worth approximately USD 117,000, were destroyed by Ukrainian customs officials. The goods included apparel, footwear, and razor replacement cartridges bearing the marks of Nike, Wrangler, Lacoste, Boss, Gucci, Harley Davidson, Winx Club, Puma, and Gillette.

Fortunately, there have been a number of successful lawsuits in which foreign and Ukrainian companies defended their brands. However the core problem is that the Ukrainian demand for counterfeit goods at discount prices remains high. Next to judicial remedies there is a clear need to inform the Ukrainian public that counterfeit products drain the economy and jobs and puts downward pressure on innovation, international trade, and investment. By wilfully purchasing counterfeit goods, consumers stimulate a shadow economy and criminal enterprises.
3. Time is right for Ukraine to further improve its IP regime

The business sectors that depend on IP protection represent an important and growing part of every modern economy. IP-based sectors are substantial drivers of GDP and employment growth. Conversely, a weak IP rights environment reduces foreign direct investment and technology transfers. Most recently, the Ukrainian Government has undertaken the process of drafting a National Strategy of the Development of the Field of Intellectual Property in Ukraine for the period of up to 2018. This is a strong indication that Ukraine is committed to strengthening its IP rights regime and evolving to a leadership role in improving IP protections and creating more effective mechanisms for preventing and fighting counterfeiting and piracy. As part of the drafting process, the Ukrainian Government has called for contributions and suggestions from stakeholders, to which ICC/BASCAP and ICC Ukraine have responded with the policy and legislative reforms delineated in this report.

The process of establishing the new National Strategy also has enormous potential for advancing Ukraine’s commitments to bringing its trade laws and practices into compliance with WTO-TRIPS rules, following from its accession process to the WTO in 2008. Those commitments include enforcing the IP rights of foreign rights holders and compliance with the rules governing the enforcement of IP rights, civil and administrative procedures and remedies, provisional measures, customs measures, and criminal procedures. Therefore, Ukraine’s goal of bringing its laws and practices into compliance with WTO-rules goes hand in hand with its current steps in strengthening its IP regime through the design of a comprehensive national IP strategy.

Moreover, newly elected Ukrainian President Poroshenko has stated that European integration will be among his initial priorities, and his goal to establish a new reputation for Ukraine as a country that raises legislative provisions across the board is an opportunity to include IP protection and enforcement as part of Ukraine’s reform programs. This is further reinforced by the new government’s intentions to align Ukraine with the EU, including progressively building cooperation with the EU in the field of IP rights. The ongoing IP dialogue has included the participation of experts and industries from Ukraine and the EU with a goal of furthering Ukraine’s aspirations for economic modernization and integration with the EU. In 2008 the EU and Ukraine started negotiations for an Association Agreement including a deep and comprehensive Free Trade Area (DCFTA), and the DCFTA was initialed in July 2012. Part of the set of conditions for this free trade area is an ambitious IPR chapter aimed at regulatory approximation with the EU laws and enforcement practices. On 21 March 2014, the EU and Ukraine signed the political provisions of the Association Agreement.

Ukraine’s ongoing status as a first Priority Foreign Country in the U.S. Trade Representative’s Special 301 Report on Intellectual Property Rights, suggests that there is more work to be done and creates an opportunity in the current environment through bilateral engagement on strengthening IP rights between Ukraine and the United States. The U.S. Trade Representative has indicated that it remains committed to addressing the problems that served as the basis for the designation of Ukraine as a Priority Foreign Country, and appreciates Ukraine’s recent outreach and on-going engagement in exploring how to ameliorate these problems and improve its overall IP regime.
Greater awareness among public authorities and Ukrainian consumers of the risks that counterfeit and pirated goods pose to consumer safety and health also presents an opportunity for progress. In an environment where piracy is rampant and the official response has thus far been limited, the government now has an opportunity to explain to the public that better IP rights enforcement is not about taking away “free” counterfeit and pirated products, but about providing the conditions and incentives for legitimate services to enter the market. In the end, it will have a positive economic impact.84 Initiatives such as BASCAP’s “I Buy Real Campaign” in Ukraine, launched in 2012, could be further taken up to help raise public awareness.
4. Recommendations for a path forward

Introduction

Ukraine’s international trading partners have called for continued progress to improve the country’s IPR regime. In order to facilitate needed reforms, BASCAP and ICC Ukraine propose a set of specific legislative and policy recommendations, which could serve as a roadmap for the path forward. The recommendations presented below are drawn from a wide range of sources, including reports from international and national government reports, academia and business associations. The list also includes specific recommendations from BASCAP member companies, including those operating in Ukraine, and from INTERPOL’s recommendations for improving the criminal IP law and procedures.85 Some of the key sources for the proposed recommendations include:

- **Ukraine IIPA 2014 Report on Copyright Enforcement and Protection** – lists a range of legal reforms and enforcement priorities such as taking actions against infringement on the Internet, strengthening the criminal enforcement regime and improving copyright protection.
- **US 2014 Special 301 Report** - urges Ukraine to take additional steps to increase IPR enforcement, especially with respect to piracy over the Internet and software piracy.
- **EU IP Enforcement Protection in Ukraine** – points out that Ukrainian judicial system suffers from a lack of deterrent-level sentences and significant delays, and there is a lack of clear rules regarding destruction of IPR-infringing goods.

Overview

- Priority should be given to designing a comprehensive national IP Strategy that identifies needed legal and policy reforms, delineates implementation and enforcement responsibilities and allocates sufficient resources to ensure effective enforcement.
- Priority should be given to the adoption and implementation of a significant number of policy and legislative reforms, such as those recommended below.
- Priority should be given to establishing a new high-level IP authority to coordinate and implement the IP Strategy and the associated legislative and enforcement reforms.
- Priority should be given to building respect for the rule of law and for property rights, and denying to rogue operators the ability to “license” rights that they do not actually have.
- Priority should be given to the creation of a Ukrainian Observatory on Counterfeiting and Piracy, similar to that established recently in the EU. The Observatory could serve as platform to join forces and build coalitions between relevant government agencies and representatives from business. The tasks and activities of the Observatory would include responsibility for implementing legislative and policy recommendations, such as those suggested in this report; assisting Ukrainian government agencies in their policy, legal and enforcement work; and assisting the government in developing a national awareness program and network for sharing best practices and data.
Legislative Recommendations

The following legislative recommendations address issues requiring further legislative reforms related to IPR protection and enforcement.

1. Address deficiencies in criminal IP law and procedures

The Ukrainian criminal enforcement regime lacks effective criminal prosecutions that lead to fewer criminal cases initiated and to criminal verdicts rendered. It is also noted that it lacks deterrent criminal sentences, which are necessary to combat IPR infringements.

The Criminal Code was completely revised in the past several years, including amendments in 2007 and in 2012 (in force in November 2012). However, in addition to those amendments to the Criminal Code, it might be appropriate to consider amending national legislation to reduce the incidence and volume of the open sale of counterfeits by providing for more severe criminal responsibility towards all elements of counterfeit manufacturing and distribution chains, including manufacturers, lessors, agents and sellers.

Following is a list of specific issues requiring legislative improvements of the Criminal Code and the Criminal Procedure Code:

**IP-Related criminal offences: Article 204 and Article 229 of the Criminal Code**

The main criminal offences directly relating to IPR protection are Article 204 and Article 229 of the Criminal Code (CC).

Paragraph 1 of Article 204 criminalizes a series of conducts (purchase, storage, sale and transportation) for the purpose of selling illegally produced excisable goods, including specifically alcoholic beverages and tobacco products.

Paragraph 2 criminalizes the illegal production of excisable goods in the presence of three alternative (not cumulative) conditions: a) the offence is committed by means of opening clandestine workshops; b) equipment allowing for mass production has been used; c) the offence has been committed by a person who had already been convicted under Article 204 CC.

Paragraph 3 also covers “illegal production” of excisable goods (in addition to their sale). The difference with the previous paragraphs is that paragraph 3 increases the applicable penalties when health concerns are present (use of poor-quality raw materials) or the acts in question have resulted in poisoning or other heavy consequences.

The following issues can be observed about Article 204:

- It would appear that the illegal production of excisable goods outside the specific conditions set forth in paragraphs 2 and 3 (opening of a clandestine workshop, use of equipment for mass production, specific dangers for the health etc.) does not entail criminal responsibility under Article 204 CC.
- In terms of penalties, only paragraph 3 sets forth terms of imprisonment from five to ten years. Paragraphs 1 and 2 only foresee financial penalties.

As to Article 229, the material elements of the offence are broadly defined as the “illegal use of a sign for goods or services, firm name, qualified indication of goods origin, or other intentional infringements of rights over these objects”.

The differences between the three paragraphs of Article 229 lie in the level of the applicable penalties, which vary depending on: a) whether the conduct caused material damage “to a significant extent”, to a “big extent” or to an “especially big extent”. (The basis for calculation of the damage is the “non- taxable minimum income of citizens”); b) the conduct was committed “repeatedly”, or by a “prior conspiracy of a group of persons”, or by an employee using his official status, or by an organized criminal group.
The following issues can be observed about Article 229:

- It remains unclear whether the term “illegal use” covers the sale and distribution of counterfeit products.
- The only criminal sanctions for the illegal use of trademarks under Article 229, regardless of the circumstances of the offence and the damages caused to the rights holders, are financial penalties. No imprisonment can be imposed.

**Lack of confiscation of proceeds of IP crimes**

With the exception of the conduct set forth in Article 204(3), (illegal production of excisable goods in presence of health concerns), the other offences criminalized under Articles 204 and 229 of the CC do not appear as predicate offences to the laundering offence as established by Article 209 of the CC. As a matter of fact, Article 209 (Laundering of proceeds from crime) identifies the underlying predicate offences by reference to a minimum threshold of 3 years of imprisonment. As a result, acts aimed at concealing or disguising the illicit origin of proceeds of IP offences do not appear to entail criminal responsibility according to Ukrainian laws.

Also, as the confiscation of proceeds of crime is only envisaged in relation to the money laundering offence, it would seem that the confiscation of proceeds of IP crimes, as set forth in Articles 204 and 229, is not possible.

**Lack of liability of legal persons in the commission of copyright and trademark offences**

The principle of the criminal liability of legal persons is not clearly established in the Ukrainian legal system. Law 3206-VI has made some in-roads into this area limited to offences related to corruption.

While a form of administrative liability for legal persons is established for non-compliance with requirements of the anti-money laundering regime, it does not appear to be in place for the commission of IP-related offences.

**Article 176 of the Criminal Code on “Violation of copyright and allied rights”**

The current threshold for initiating criminal prosecution under Article 176 on “Violation of copyright and allied rights” remains high. As a result, the required high threshold prevents the initiation of criminal investigations and prosecutions. This is particularly the case for online piracy matters, where the valuation of damages is very difficult to calculate absent an official methodology.86

In addition, Article 176 of the Criminal Code does not clearly apply to many forms of piracy (i.e., on the Internet), but only (clearly) to hard-copy piracy. Thus, a legal reform is needed to ensure the availability of criminal remedies against online piracy of all works and sound recordings. Moreover, a repeat copyright infringement (within 12 months) should lead to the possibility of criminal prosecution, and not solely an administrative action.87

**IP-related offences seem not to be extraditable within the scope of Articles 204 and 229 of the Criminal Code**

Extradition in Ukraine is regulated by both domestic legislation (setting forth conditions and procedural requirements) and international treaties.

Under Article 451 of the Criminal Procedure Code (CPC), extradition is possible for offences carrying a maximum penalty of at least one year of imprisonment or, where extradition is requested for the purpose of enforcement of a sentence, for offences for which a period of sentence of at least four months remains to be served. As a consequence, it would appear that most IP-related offences within the scope of Articles 204 and 229 of the CC would not be extraditable.
Mutual legal assistance (MLA) can be granted on the basis of multilateral and bilateral treaties. In the absence of a treaty, requests for MLA can be executed based on reciprocity and via diplomatic channels. The Code of Criminal Procedure does not contain any specific provision on MLA.

At least on paper, the system appears to be flexible enough to accommodate foreign requests for the transmission of evidence and the performance of other judicial acts to assist foreign criminal proceedings on IP matters.

**Lack of ex-officio action for police officers and failure to grant right holders the status of injured party**

The Criminal Procedure Code must also be fixed in law and practice so that police can act ex officio to initiate criminal intellectual property cases. The Ukrainian Criminal Procedure Code changed in November 2012 and it currently requires right holders to file complaints to initiate actions. The Criminal Procedure Code should be amended so that police initiate ex-officio, and be able to initiate, intellectual property criminal cases and investigations for submission to the court.88

The Criminal Procedure Code must also be fixed in law and practice so that police and tax police investigators recognize right holders as injured party in the proceedings and initiate intellectual property criminal cases once right holders file complaints. Currently, there is frequently a significant time gap between the initiation of intellectual property criminal cases and the right holder being granted the status of injured party. Moreover, in some cases, police and tax police investigators (i) failed to initiate cases upon receipt of complaints filed by right holders despite the requirement to do so under Article 214 of the Criminal Procedure Code, or (ii) initiated cases but failed to grant right holders the status of injured party.

**Lack of clarity on the process for confiscating and destroying seized products**

Finally, the Ukrainian IP legislation also lacks sufficient clarity in relation to the process for destroying seized products and equipment used for their production.89 Effective criminal procedures for the destruction of seized counterfeit goods, properly monitored by law enforcement agencies, are essential to prevent both counterfeit goods from ending up into legitimate trade channels and manufacturing equipment from returning to illicit factories.

Moreover, on May 13, 2014, the Ukrainian parliament, the Verkhovna Rada, adopted the draft law #4556 “On Amendments to Certain Legislative Acts of Ukraine in the Sphere of Anti-Corruption Policy in Connection with the Implementation of the EU-Ukraine Action Plan on Visa Liberalization” (on May 19, the draft law was sent to the Acting President of Ukraine for his signature). The draft law removes from Article 176 (infringement of copyrights and related rights), Article 177 (infringement of patent rights) and Article 229 (illegal use of trademark) of the Criminal Code such sanctions as the confiscation and destruction of counterfeit goods and materials and equipment used for their manufacture, which are currently mandatory. Instead, according to the new redactions of Articles 96-1 and 96-2 of the Criminal Code, Ukrainian courts are granted a discretionary right to apply a so-called special confiscation, i.e. to confiscate funds, valuables and other assets of the accused in relation to any criminal offences. Such special confiscation can be applied even if the accused is released from criminal responsibility due to amnesty, settlement with the injured party or in several other cases. Thus, once the draft law enters into force, the confiscation and destruction of counterfeit goods and materials and equipment used for their manufacture will no longer be mandatory for Ukrainian courts in criminal proceedings.

The Criminal Procedure Code should be amended to subject seized counterfeit goods, materials and equipment used for their manufacture to mandatory confiscation and destruction.
Address deficiencies in criminal IP law and procedures
Recommendations:

A. Increase and intensify effective criminal prosecutions and convictions, and impose deterrent levels of criminal sanctions.

B. Define the term “illegal use” employed in Article 229 of the CC to ensure it covers the manufacturing of counterfeit products as well as subsequent events in the supply chain.

C. Clarify whether the intention of the legislator was indeed to provide for no criminal penalties for the illegal production of excisable goods under Article 204 of the CC, outside the specific conditions set forth in paragraphs 2 and 3 of this Article.

D. Introduce penalties of imprisonment for the offences set forth in Articles 204 and 229 of the CC, at least in cases when they are committed on a “commercial scale”, in accordance with Article 61 of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement), or when other aggravating circumstances are present.

E. Set imprisonment terms of at least four years when organized criminal groups are involved. This would ensure that Article 204 and Article 229 offences qualify as “serious crimes” according to the United Nations Convention against Transnational Organized Crime (UNTOC), which would allow the possibility of triggering, when necessary, the international cooperation mechanism envisaged in the UNTOC.

F. Consider changing the “status” of some IP-related offences from “minor offences” (defined by Article 12 of the CC as those punishable by imprisonment for a term up to two years or a more lenient penalty) to “medium grave” or “grave offences”. Currently, under Article 14 of the CC, preparations to commit a minor offence (which includes conspiracies to commit an offence, removing obstacles to the commission of an offence, looking for accomplices, etc.) do not give rise to criminal liability.

G. Determine the extent to which IP-related offences should become predicate offences to the offence of money laundering in order to: (i) Ensure the criminalization of the laundering of proceeds of IP-related crimes; (ii) Allow for the confiscation of proceeds of IP-related crimes.

H. Enact laws whereby legal persons could be held liable (criminally or administratively) for the commission of copyright and trademark related offences.

I. Fix the threshold for criminal responsibility under Article 176 of the Criminal Code that remains high.

J. Amend Article 176 of the Criminal Code to apply also to digital piracy and end user piracy (unauthorized use of unlicensed software) cases and not only to hard-copy piracy as it clearly does now.

K. Allow criminal prosecution in cases of repetitive infringement of copyright within 12 months.

L. Determine which IP-related offences could be criminalized with a term of imprisonment of at least one year to ensure that they become extraditable offences under Article 451 of the CPC.

M. Amend the Criminal Procedure Code to give the police proper authority to commence investigations ex officio.

N. Amend Article 214 of the Criminal Procedure Code to require investigators to recognize a right holder as injured party in the proceedings at the time of the initiation of a criminal case and the filing of a complaint by the latter.
2. Improve action against Internet infringements

Internet piracy is a rapidly growing problem in Ukraine. For all of the copyright industries—music, film, book and music publishing, entertainment software and business software—Internet enforcement remains very weak. In addition, the last few years have seen the rapid growth of peer-to-peer hosting and illegal websites-based Internet piracy, including BitTorrent sites, located in Ukraine. There are numerous open sites, and Ukraine has many free and pay-per-download music and video websites, as well as streaming services, some aimed at international audiences throughout Europe and United States.

In February 2010, the Government of Ukraine approved and signed an IPR “Action Plan” (the plan became “effective” in October 2010) that was developed in cooperation with the US Government, and was designed to specifically tackle Internet piracy. Unfortunately the Government of Ukraine made minimal progress in implementing its 2010 IPR Action Plan and in some cases took steps backwards. For example, it is reported that several days after Ukrainian police took down the country’s largest infringing website (ex.ua), Ukrainian authorities allowed the site to re-open.

In general, it is reported that the lack of clear prosecutorial and court procedures for Internet-related cases is a block on effective enforcement and that existing procedures are too difficult to be used effectively.

Furthermore, Article 40 of the Law on Telecommunications (paragraph 4 on the “responsibility of operators”) states that ISPs “shall not be held liable for the content of the information transmitted through their networks.” In addition, Article 38 of the Law on Telecommunications states that ISPs can disable end users from the Internet, or block access to (i.e., take-down) infringing websites pursuant to a court decision. Some ISPs will delete links upon request but most refuse rights holders’ requests and demand court orders. This is contrary to well-established practice in Europe, the United States and elsewhere where powerful legal incentives are provided for ISPs to respond to takedown notices.

Amendments intended to improve digital piracy enforcement were proposed in May 2013 (and revised in June, September, and December) to the Copyright Law and the Law on Telecommunications. Unfortunately, it is reported that apart from a positive amendment in respect to the reduction of the timeframes for infringing content to be taken down, the new amendments raise serious additional concerns that the law—if adopted—will most likely be unworkable and ineffective to tackle the problem of piracy online.

The Government of Ukraine, therefore, needs to adopt key Internet enforcement legal reforms to address piracy over the Internet, including by adopting legislation to provide an appropriate regime for notice and takedown. Any effective proposal must both address the Internet piracy and include safeguards against abuse, and a meaningful opportunity for due process (e.g. a fair counter-notice process).
Improve action against Internet infringements

Recommendations:

A. Introduce legal reforms to: (a) clarify that companies will face liability for operating a website that specifically offers infringing copyright or trademark materials, and to (b) create incentives for rights holders and ISPs to cooperate with each other.

B. Ensure that courts have the authority and, in appropriate cases, the obligation to issue orders to ISPs to provide information on suspected infringing website owners to law enforcement agencies and rights holders.

C. Ensure that procedures are available for law enforcement agencies and rights holders to obtain identifying information on owners of websites that are suspected of IP infringement, and specifically targeting pirated or counterfeit goods. Such procedures must include safeguards against abuse, and a meaningful opportunity for due process (e.g. a fair opportunity to protect against perpetual investigations).

D. Adopt guidelines and more effective procedures for police in conducting Internet crime investigations as well as for prosecutors and judges regarding Internet crimes.

E. Implement appropriate notice and take down procedures for websites hosting illegal material.

F. Fully implement the WIPO digital treaties – the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT).

3. Address inadequacies in civil enforcement procedures

According to industry reports, Ukrainian IP legislation lacks sufficient clarity on the process for destroying seized products and the equipment used for their production, which prevents the effective implementation and enforcement of legal norms governing destruction. As a result, seized counterfeit goods and the equipment used for the manufacture of counterfeits are not always destroyed in a proper way and may even find their way back to the market. Industry reports indicate that there have been instances where factory equipment used for the manufacture of counterfeit cigarettes purportedly seized as evidence in connection with counterfeiting facility raids disappeared and was suspected of being used again to produce counterfeit cigarettes in other locations within the Ukraine. Also, regarding counterfeit pesticides and agrochemicals, it is reported that the volume and frequency of fake pesticides and agrochemicals circulating in Ukraine keeps growing each year. Thus, the Law of Ukraine on Pesticides and Agrochemicals needs to be amended in order to develop clear mechanisms for destruction of counterfeit pesticides and agrochemicals.

Another deficiency in this area is the duration of judicial procedures that are considered to be lengthy, coupled with a lack of deterrent-level sentences and shortage of IPR-trained judges. In addition, IP rights holders encounter problems with burdensome evidentiary requirements requested by Ukrainian courts, including particularly, rights ownership information.

Furthermore, there is a problem of calculation of damages caused by unlawful use of industrial property objects. This issue is currently governed by Article 26 of the National Standard No. 4 “Evaluation of proprietary rights in intellectual property” (Decree of the Cabinet of Ministers of Ukraine No. 1185 of October 3, 2007). In particular, according to Article 26 “the scope of damage caused by unlawful use of an intellectual property object shall be established as of the date of evaluation with the use of the evaluation procedure based on the principle of accumulation of profit which had not been received by the IP rights holder and/or its licensee due to unlawful use of the intellectual property object, particularly in view of the scale of manufacture and/or sales volumes of counterfeit goods.” As a result, for example, if the goods are stored at a warehouse, the amount of such goods...
is not taken into account upon calculation of damages since such goods are not deemed to have been sold. This Article must be amended to provide for calculation of the extent of damage caused not only based on the manufacturing and/or sales volumes of counterfeit goods, but also taking into account the extent of other forms of unlawful use of IPRs.

Moreover, to ensure effective protection of trademark owners’ rights the mechanism of one-time compensation as an alternative to an award of damages caused by unlawful trademark use is necessary. In view of this, it is recommended that Article 21 of the Law of Ukraine “On the Protection of Rights to Marks for Goods and Services” be amended by adding a paragraph 3 as follows: “3. The court may render a judgment on payment of a one-time compensation determined by the court within the limits from 10 to 50,000 minimum wages instead of damages. When deciding on the amount of the one-time compensation payable as an alternative to damages the court should take into account guilt of the person who committed the infringement and other relevant circumstances.”

Respective draft law #2148a “On Amendments to the Law of Ukraine “On the Protection of Rights to Marks for Goods and Services (Regarding the Implementation of the Mechanism of One-Time Money Recovery for Effective Protection of Trademark Owners)” was already introduced to the Ukrainian parliament on May 27, 2013 and is still pending.

**Address inadequacies in civil enforcement procedures**

**Recommendations:**

A. Amend paragraph 2 of Article 432 of the Civil Code and paragraph 2 of Article 20 of the Law of Ukraine “On protection of rights to marks for goods and services” to provide for mandatory destruction of seized counterfeit goods, materials and equipment used for their manufacture.

B. Speed up the trial process and enhance the deterrent effect of civil measures.

C. Reduce burdensome evidentiary requirements particularly for title ownership and issue a circular note to the Ukrainian courts on the application of presumption of title.

D. Amend Article 26 of the National Standard No. 4 “Evaluation of proprietary rights in intellectual property” (Decree of the Cabinet of Ministers of Ukraine No. 1185 of 3 October 2007) to read as follows: “the scope of damage caused by unlawful use of an intellectual property object shall be established as of the date of evaluation with the use of the evaluation procedure based on the principle of accumulation of profit, or regular license fees which had not been received by the IP rights holder and/or its licensee due to unlawful use of the intellectual property object, particularly in view of the scale of manufacture and/or sales volumes of counterfeit goods and the scope of other forms of unlawful use of an intellectual property object.”

E. Adopt the draft law #2148a and amend Article 21 of the Law of Ukraine “On protection of rights to marks for goods and services” by adding paragraph 3 reading as follows: “3. The court may render a judgment on payment of a one-time compensation determined by the court within the limits from 10 to 50,000 minimum wages instead of damages. When deciding on the amount of the one-time compensation payable as an alternative to damages the court shall take into account guilt of the person who committed the infringement and other relevant circumstances.”
4. Address legal deficiencies of IP protection regime

Since 2011, the State Intellectual Property Service of Ukraine (SiPS) has been promoting draft laws in Ukraine’s parliament, the Verkhovna Rada: the draft law “On Amendments to Certain Legislative Acts of Ukraine on Intellectual Property Issues” and the draft law “On Amendments to Certain Legislative Acts on Copyright and Related Rights”.100

With respect to industrial property legislation, the draft law “On Amendments to Certain Legislative Acts of Ukraine on Intellectual Property Issues” that would amend both the Law “On the Protection of Rights to Industrial Designs” and “On the Protection of Rights to Marks For Goods and Services” is still pending. In this regard, it is noted that the proposed law lacks a pre-registration opposition procedure available for third parties. Lack of a pre-registration opposition procedure provides fertile ground for those seeking to register industrial designs or marks in bad faith before the legitimate owner has done so. It can take years to cancel such registrations, and in the meantime legitimate owners or users are precluded from using the trademark while the validity is challenged. It is also recommended to include provisions allowing not only applicants but also third parties to bring oppositions against decisions issued in respect of patents for industrial designs and trademark certificates before the Chamber of Appeals under the State Intellectual Property Service. Introduction of such procedures will contribute to faster and more economical settlement of possible conflicts and enhancing reliability of the registers of industrial designs and trademarks.

Furthermore, the existing procedure for securing utility models patents has its drawbacks that also result in abuses of patent rights, particularly in case of bad faith patenting of technical solutions that are not new and have already been present on the market, resulting in infringement of third persons’ rights.

In this respect, respective legislative amendments are recommended in order to:

- provide for a possibility of third persons to bring objections against issuance of such patents at the stage of prosecution of utility model applications;
- allow not only applicants but also third parties to bring oppositions against decisions issued in respect of utility model patents before the Chamber of Appeals under the State Intellectual Property Service.

The draft law “On Amendments to Certain Legislative Acts on Copyright and Related Rights” is also still pending in Ukraine’s parliament. IP rights holders report serious problems regarding the treatment of legitimate collecting societies in Ukraine, in particular the questionable withdrawal of the accreditation of representative collecting societies and the accreditation process of rogue societies that actually represent few if any rights holders relevant to Ukrainian market. In addition, it is reported that the Ukrainian government has not taken proper actions against organizations that purport to grant “licenses” for which they do not have rights or collecting societies that had been created not by right holders in the first place. Thus, the draft law should include provisions to improve Ukraine’s collective rights management system. It is important to make clear that the authorized collective management organizations could only be those who received the mandates from the majority of rights holders whose repertoire is used on the territory of Ukraine.

Moreover, in 2012, the highest Economic Court—in resolutions—declared that the storage of illegal copies of software in a computer memory could be a copyright infringement. However, neither the Copyright Law of Ukraine nor the Criminal Code clearly provides that the use of illegal copies of software is an infringement that should be fixed.

Furthermore, it has been reported that various ministries within the Government of Ukraine (including the Ministry of Interior, the offices of State Tax Service, and the Prosecutor’s Office, among many others) are using unlicensed software. In 2003, the Cabinet of Ministers of the Ukrainian Government passed a regulation establishing procedures for the use of software in government agencies. It provided for government institutions to
use properly licensed and legally held software, and prohibited public servants from installing, using, or copying software without prior consultation with a responsible system administrator. In 2004, the government issued a new regulation to implement legalization. It assigned all procurement authority for software products to a single entity, the SIPS, in order to try to eliminate the use of pirated software products in the public sector. Unfortunately, the Government of Ukraine has been slow to implement the regulation on software legislation in state institutions.

Another shortcoming relates to the issue of non-payment of royalties by state-owned broadcasting companies. Broadcasting companies have a legal obligation to compensate rights holders when using copyright protected material in their production/broadcasting. However, it has been reported that industry encountered difficulties in being compensated by the stated broadcasting companies, yet non-payment of royalties stipulated by law is not clearly an infringement of copyright and related rights.

Relating to patent protection in Ukraine, it is noted that additional steps must be taken to ensure adequate protection for pharmaceutical patents and regulatory data. In particular, it remains unclear at which stage, and under which authority, a regulatory authority can refuse to register a medicinal product if the applicant is infringing data protection rights or patent rights of the reference medicinal product. In addition, a new legislative initiative tabled by the Cabinet of Ministers of Ukraine to amend Article 9 of the Law on Medicines is of concern because it could result in further weakening patent protection in Ukraine. The Bill proposes that marketing authorization applicants for medicinal products would no longer be required to submit a certified copy of the relevant patent(s) for the innovator product or a license to manufacture and market a copy of the innovator product with their applications. These documents help ensure that generic applicants are not granted marketing authorizations while the underlying innovative product is still subject to patent protection. As a result, canceling the requirement to submit these documents with the marketing authorization application is a critical step backwards in ensuring effective patent protection.

### Address legal deficiencies of IP protection regime

#### Recommendations:

A. Adopt legislative provisions introducing pre-registration procedures for filing objections against applications for industrial designs, trademarks and utility models, and, in addition to the applicant's right of appeal, providing for oppositions which may be brought by third parties against granting decisions in respect of the mentioned IP objects before the Chamber of Appeals under the State Intellectual Property Service.

B. Adopt a proper procedure for the authorized collecting societies for public performances and broadcasting through inserting the following criteria: 1) volume of the rights in active use, 2) proper and direct governance by rights holders, and 3) an open and transparent accreditation/authorisation process.

C. Amend the Copyright Law to introduce that the use or storage of illegal copies of software on a computer hard drive is a copyright infringement.

D. Implement the regulation on legalization of software in state agencies.

E. Make either the non-payment of music rights royalties, or of private copying levies, an infringement of copyright and related rights.

F. Introduce clear procedural rules regarding effective patent enforcement and regulatory data protection.

G. Add a system of enhanced damages in order to adequately compensate rights holders and deter further infringement.
5. Improve administrative enforcement procedures

It is has been reported that proper administrative remedies do not now exist but, unfortunately, they are not being used effectively. It is thus crucial that administrative remedies be properly implemented alongside available and properly implemented criminal penalties at levels sufficient to deter counterfeiting and piracy.

One major enforcement shortcoming in the Administrative Code of Ukraine is the requirement to prove intent of the infringer under Article 51.2. Intent, while relevant in criminal proceedings, has no relevance in administrative sanctions, and should be corrected.

In addition, given the long-standing practice of the administrative courts imposing minimum fines for administrative violations (and not even considering the maximum fines available), an amendment should be proposed to substantially increase the minimum amount of the administrative fines, which are currently low.

Another area of concern is the destruction of counterfeit goods seized under Article 51.2 of the Code of Ukraine on Administrative Offenses. According to Article 46 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed. Furthermore, under paragraph 4, Article 6 of the Law of Ukraine “On the Protection of Consumers’ Rights” marketing of fake goods, namely any goods manufactured with circumvention of technology, or with unlawful use of a trademark, or copying the form, packaging, design, as well as reproducing third party’s goods (paragraph 27 of Article 1 of this Law), into commerce shall be prohibited. At the same time, counterfeit goods seized in favour of the State based on a court decision may be returned to trade channels. Therefore, it is necessary to supplement Article 51.2 of the Code of Ukraine on Administrative Offenses with provisions on mandatory destruction of seized counterfeit goods, materials and equipment used for their manufacture.

It is also necessary to amend Article 7 of the Law of Ukraine “On execution proceedings” by adding the provision allowing participation of the rights holder whose rights have been infringed (or his legal representative) in the destruction proceedings. As stated above, transparent destruction procedures are essential to prevent both counterfeit goods from ending up in legitimate trade channels and manufacturing equipment from returning to illicit factories.

Improve administrative enforcement procedures

Recommendations:

A. Introduce changes to Article 51.2 of the Administrative Code of Ukraine in particular to remove the word “intentional” from its formulation, and provide for mandatory destruction of seized counterfeit goods, materials and equipment used for their manufacture.

B. Amend the Administrative Code to increase the minimum amount of administrative fines.

C. Amend Article 7 of the Law of Ukraine “On execution proceedings” by adding the provision allowing the rights holders whose rights have been infringed (their representatives) to participate in the enforcement of court judgments in connection with the destruction of confiscated counterfeit goods, materials and equipment used for their manufacture.
6. Improve customs enforcement procedures

The new Customs Code of Ukraine came into force in June 2012. The Customs Code provides clear ex officio authority (Article 257) to customs officials to properly conduct enforcement investigations. However, Customs authorities are not sufficiently engaged in enforcement measures and thus are under-utilizing their authority to act ex officio.

Moreover, it has been reported that enforcement efforts remain ineffective against the widespread availability of counterfeit and pirated products, many of which are transshipped through Ukraine to third countries because customs officials lack authority to take action against IPR-infringing goods in transit.

Under paragraph 8 of Article 243 of the Customs Code of Ukraine the goods seized based on the court decision shall, under Article 476 of the Customs Code, be either transferred for the purposes of medicinal, educational, social and cultural institutions and other institutions financed from the state or local budgets, or be subject to recycling, utilization or destruction. However, as a rule, the goods classified according to Article 476 of the CCU are counterfeit goods, the goods with unknown origin and of questionable quality. In such a case, the civil and criminal laws provide for destruction of counterfeit goods. Thus, the State Enforcement Service carrying out execution of court decisions, pursuant to paragraph 8 of Article 243 of the CCU is in a position to apply alternative means of disposal of seized goods. However, the rights holder whose rights have been infringed (or his representative) is not allowed to participate in these proceedings, he is neither included in the respective commission, nor is allowed to sign the document on the transfer of goods and has limited powers of control. Therefore, it is recommended that Article 476 of the Customs Code be amended to add the provision for destruction of goods infringing IP rights protected by the law.

In addition, the terms for destruction of counterfeit goods are not established under the Customs Code. Thus, the rights holder’s expenses for storage of goods at the customs warehouse may be significant.

There are also certain deficiencies in cooperation between customs divisions resulting from the lack of mandatory inspection for infringement of IPRs in goods concealed from customs control. Particularly, when customs detect goods concealed from customs control in the course of their cross-border transportation, the customs inspector that detected this violation has to draw a protocol on violation of customs rules and transfer the same to the department for combating contraband. However, the department for combating contraband does not inform the customs IPRs division about the detention of goods infringing IPRs, neither it carries out the assessment whether the goods are authentic. Hence, there is a likelihood of counterfeit goods of unknown origin and questionable quality being introduced into commerce. Therefore, further amendments in the customs laws are necessary, in particular adding provisions on the mandatory inspection for infringement of IPRs in goods concealed from customs control; mandatory notification about the detected IPR infringements of the customs division responsible for the protection of IPRs; and mandatory destruction of such goods to prevent their reintroduction into commerce. In this case, the fine imposed must be calculated based on the value of original goods.

Since according to subparagraph c), paragraph 8, Article 257 of the Customs Code the trademark and manufacturer of goods shall be indicated in the declaration only provided that they are indicated in shipping and commercial documents, unfair declarants abuse this provision for concealing the fact of importation of counterfeit goods. In view of this, the wording “in case if they are indicated in shipping and commercial documents” should be deleted from subparagraph c), paragraph 8, Article 257 of the Customs Code, which would result in providing for obligatory indication of these data in the customs declaration.

Another deficiency in the Ukrainian laws lies in the possibility of importation/exportation of counterfeit products under the guise of humanitarian aid. This problem may be solved by supplementing the laws with provisions prohibiting importation/exportation of counterfeit products as humanitarian aid. To this end, it is recommended to amend
the Law of Ukraine “On Humanitarian Aid” providing for the prohibition of importation/exportation of counterfeit goods, for example, by supplementing respective regulations with the provisions obligeing to provide documents confirming the origin of goods and the right to use the trademarks. This would enable the prevention of the issuance of orders on classifying counterfeit goods as humanitarian aid by the Ministry of Social Policy of Ukraine.

It is further recommended that Ukraine consider utilizing other countries’ best practices (e.g. expertise of the Russian or WTO countries customs services) which have proven to be effective and lead to an increase in the number of counterfeit products identified at customs points. The introduction of Counterfeit Product Units (CPU)—a target indicator—spurred competition between the customs posts of Russian Customs and led to the increase in customs contacting rights holders for verification of goods. It also facilitated the operation and functioning of the customs register of intellectual property items. The introduction of CPUs will demand preliminary negotiation and coordination between all interested parties and appropriate amendments to the Ukrainian Customs Code.

**Policy Recommendations**

The following policy recommendations encourage broader measures, actions and initiatives to support the implementation and enforcement of IP legislation as recommended above.

The policy recommendations are primarily aimed at putting in place an overarching IPR strategy and empowering an authority to oversee enforcement of the strategy and associated legislation. In order to increase effectiveness, these policy recommendations suggest better oversight and coordination between government agencies and encourage cooperation with business and IP rights holders.

As mentioned above, a useful starting point would be the establishment of a comprehensive national IP strategy and implementing action plan covering the full range of legal and policy reforms, technical assistance and capacity building measures, channels for international cooperation and tools for strengthening enforcement practices.

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**Improve customs enforcement procedures**

**Recommendations:**

A. Amend the Customs Code to extend ex-officio authority of customs officials to counterfeit goods in transit.

B. Amend the sanction of Article 476 of the Customs Code by adding the provision for destruction of goods infringing IP rights protected by the law.

C. Amend the Customs Code to establish clear terms for destruction of counterfeit goods.

D. Amend the Customs Code providing for the mandatory inspection for infringement of IPRs in goods concealed from customs control; mandatory notification about the revealed IPR infringements of the customs division responsible for protection of IPRs; and mandatory destruction of such goods to prevent their introduction into the commerce.

E. Amend subparagraph c) of par. 8, Article 257 of the Customs Code to provide for obligatory indication of the trademark and manufacturer of goods in the customs declaration.

F. Amend the Law of Ukraine “On Humanitarian Aid” providing for the prohibition of importation/exportation of counterfeit goods under the guise of humanitarian aid.

G. Utilize best practices from other countries and introduce the CPU (Counterfeit Product Unit) system for all Ukrainian customs posts alongside the development of KPIs for customs.
In addition, the effective implementation of the IP Strategy could benefit considerably from the establishment of a new high-level inter-ministerial IP authority, or, alternatively, the assignment of responsibility to an existing high-level IP body. This authority would have the mandate to oversee implementation and enforcement. Such an authority/body would have a broad responsibility to oversee the coordination of relevant agencies, develop and implement joint strategic enforcement plans and report to the Ukrainian government on specific performance indicators.

1. Improve coordination among enforcement authorities in addressing counterfeiting and piracy, including among the policy, judiciary and Customs

An important aspect of enforcement is the cooperation and coordination between law enforcement authorities. In Ukraine, several governmental bodies are responsible for the regulation and enforcement of IPRs, including the State Intellectual Property Service, the Ukrainian Institute of Industrial Property, the Ukrainian Agency of Copyright and Related rights, the Anti-Monopoly Committee, the Higher Commercial Court, the Court of Appeals, the Prosecutor General’s Office and the State Customs Service. While there is already cooperation between these bodies, the level of cooperation needs to be improved and actions better integrated. The establishment of sound cooperation and coordination structures is particularly important in the area of piracy over the Internet and enforcement generally.

Recommendations:

A. Establish a new high-level IP authority or assign responsibility to an existing inter-ministerial IP Council to coordinate the implementation of the IP Strategy. This would establish the authority to implement recommendations, ensure enforcement and provide coordination among relevant agencies.

B. Establish uniform methodology and guidelines by the Ministry of the Interior and the General Prosecutor’s Office on investigation and prosecution of IPR violations to ensure that prosecutors can properly investigate administrative and criminal actions, and to ensure a uniform approach to these cases nationwide.

C. Establish a coordinated working group among the various Ukrainian agencies to develop a common understating and a coherent and uniform application of newly adopted laws.

D. Encourage the highest specialized courts in civil and criminal cases to issue guidelines for judges on sentencing; also assist judges with developing expertise in IP cases, and training judges on these guidelines.

E. Introduce a system of specialized and impartial judges hearing cases involving infringement of IPRs.

F. Encourage Customs and police to participate more fully in developing and using existing technical tools to collect and share information. Share information with Customs authorities including information to better identify and target shipments suspected of containing IPR infringing goods.

G. Improve Customs’ risk assessment tools, for example, given the differences in prices between authentic and counterfeit products, a system should be set up to flag imports of certain products that fall below a certain declared value. Incorporate CPUs into KPIs for Customs.
H. Foster cooperation and coordination among enforcement authorities through measures such as investigative training programs, seminars for judges, workshops and conferences for law enforcement officials.

I. Upgrade technical infrastructure and develop on-line networks to allow IPR enforcement authorities to rapidly exchange information on enforcement issues, including real-time alerts on suspect products, manufacturing sites, distribution routes and key sale points.

J. Cooperate with the World Customs Organization to utilize the IPM system.

K. Research and make information available on technical tools and systems for prevention and investigation purposes (including tracking and tracing systems which help to distinguish genuine products from counterfeit).

L. Develop databases to collect, store and analyze the scope and impact of IPR infringements, national case law on such infringements, and systems to enhance access of public authorities and private stakeholders to information.

M. Issue documents for the implementation of IP rights such as handbooks and manuals and make them available to the law enforcement authorities.

2. Establish effective dialogue and cooperation between Ukrainian authorities, IP rights holders and other stakeholders

Effective cooperation between private IP rights holders and public authorities is a key element in combating counterfeiting and piracy. While industry has the primary responsibility for protecting its intellectual property, government plays a critical role in ensuring there is an effective IPR protection regime in place, including responsibilities and incentives for all parties involved, and enforcing the relevant laws and regulations. Rights holders can assist government in investigations and enforcement actions through their technical expertise to distinguish counterfeits from original products and familiarity with the supply chain involved in manufacturing, distributing and selling their products. Rights holders can also assist the government in the destruction of counterfeit goods. They also can support government capacity building and training initiatives, data collection and development of standards and sharing of best practices and overall coordination.

Recommendations:

A. Integrate rights holders into all working groups of the relevant ministries to assist in developing policy and legislation affecting relevant industry sectors.

B. Integrate rights holders into a working group of police and prosecution investigators to assist in developing investigative guidelines and methodology.

C. Involve rights holders or their representatives in the procedures for destruction of counterfeits, which would require amending paragraph 2, Article 7 of the Law of Ukraine “On Enforcement Proceedings” by extending the list of parties that may be involved by a state enforcement officer in the enforcement procedure to include IPR holders.

D. Integrate industry experts into the judicial process to improve and speed criminal investigations, and issue guidelines enabling the admissibility of the private expert testimony.

E. The Ministry of the Interior and the General Prosecutor’s Office should appoint a government liaison with IP rights holders to more effectively bring criminal investigations and trials to successful conclusions.
F. Promote the establishment and maintenance of formal or informal mechanisms such as advisory groups that would facilitate engagement between the Ukrainian authorities and rights holders and other relevant stakeholders including organizers of trade fairs, transport and logistics companies, retailers and payment service providers.

G. Amend privacy laws to allow for information about infringers to be released by Internet Service Providers (and phone companies in the case of counterfeiters using mobile phones to access the Internet.)

H. Enhance pre-seizure information sharing with rights holders on products and packaging to aid Customs in determining whether goods are infringing.

I. Enhance information sharing with rights holders on technological protection measures and circumvention devices seized, and provide samples to rights holders of circumvention devices seized in order to allow rights holders to alter the technological measures to render the circumvention devices ineffective. Encourage and facilitate dialogue between rights holders and other stakeholders to exploit the potential of collaborative approaches and to place more emphasis on joining forces to combat IPR infringements. The focus on common interests should allow voluntary arrangements to be fostered that would supplement the legislative framework.

J. Create a Ukrainian “Observatory on Counterfeiting and Piracy”, composed of relevant government, industry and other stakeholders. It could serve as platform to build coalitions between national authorities and rights holders. Its activities could include putting effective policy recommendations in place and assisting the government with enforcement work outlined above.

3. Expand IP-related administrative and technical capacity building

A country’s effectiveness in protecting IP rights is in significant measure dependent upon its capacity to enforce them. Therefore, in addition to prescriptions for better legislation and stronger enforcement, methods for improving knowledge, enhancing training, and developing skill capacities and competences should be put in place.

Recommendations:

A. Increase the number of state IP inspectors in the State Intellectual Property Service so that each of the 25 regions has at least one dedicated IP inspector.

B. Increase staff and better resource the specialized IP Crime Unit within the Economic Crime Division in the Ministry of the Interior as well as the Cyber Crime Unit in the Ministry of Interior; ensure officers are adequately trained to combat Internet crimes.

C. Increase staff and better resource the economic courts that have judges specialized in IP matters.

D. Increase and better resource the IP police enforcement personnel.

E. Appoint special IPR investigators, prosecutors and police officers at both the federal and regional levels throughout Ukraine to address IP crimes.

F. Organize more domestic programs and maximize the use of available funds offered at international level by participating in technical assistance projects with foreign governments (such as the EU Twinning projects and TAIEX) to support the implementation and enforcement of IPR.
G. Expand cooperation with international organizations and participate in their training seminars: WCO, Interpol, Europol and UNICRI.

H. Develop and agree to a timetable of specialist intellectual property seminars for law enforcement (Customs and police) on a monthly basis, ideally by sector, from rights holders presenting on the distinctive features of original and fake products.

I. Foster cooperation between law enforcement officials in the US, EU and other WTO states to address online infringements and Internet IP crimes.

4. Increase public and political awareness of counterfeiting and piracy and the associated economic and social harm

In Ukraine, as in many countries, research has shown that consumers participate regularly in purchasing counterfeit and pirated goods. And, many government leaders and decision makers continue to view counterfeiting and piracy as a “victimless crime” and give it very low priority for policy actions.

There is an urgent need to increase public and political awareness and understanding of counterfeiting and piracy activities and the associated economic and social harm. It is important for consumers, rights holders and government officials to be aware of the counterfeiting problem, to understand the economic and social effects, and to know what concerned parties can do to combat counterfeiting and piracy activities.

Recommendations:

A. Build on BASCAP’s globally tested awareness campaign (Fakes Cost More-I Buy Real), to create a national campaign to strengthen public awareness of the value of IP, the detrimental effects of IPR infringements, and the harms and costs of counterfeiting and piracy.

B. Work with industry, in Ukraine and globally, to develop a program for effectively delivering the national campaign across the country, with special attention to children and young adults.

C. Develop an overall communication strategy on enforcement-related activities including the use of new communication channels such as social networks and the design and development of an exclusive enforcement related website.

D. Task an agency such as SIPSU with responsibility to lead a campaign to explain how copyright enforcement can improve the ability to offer content lawfully through innovative, authorized services.
Conclusion

Combating counterfeiting and piracy must become a public policy priority. This effort must start with the Ukrainian government sending a clear message to the criminal networks and those involved in counterfeiting and piracy that this activity will no longer be tolerated. In addition, the Ukraine government has a key role to play in supporting IPR protection by ensuring that their own software use is brought into compliance with respective licensing agreements and laws. These actions will help convince legitimate business owners and consumers that the government is serious about protecting IP rights. Public officials, international governmental organizations, industry and even consumers need to work together more closely to develop more creative and effective methods to fight this economic and societal problem.

The benefits of a more advanced intellectual property regime to Ukraine's economy are undeniable. As summarized throughout this report, there is a close correlation between the effectiveness of IPR protection and a country's economic performance. IPR systems significantly affect every country's growth, FDI, employment capacities, innovation and overall competitiveness, and enable productivity and efficiency gains. Putting in place a solid IPR protection and enforcement regime is thus critically important for Ukraine to reach its economic potential. The ICC, through its BASCAP initiative, and ICC Ukraine stand ready to do their part to help the Government of Ukraine achieve these important goals.
INTERNATIONAL CHAMBER OF COMMERCE (ICC)

ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world.

The fundamental mission of ICC is to promote open international trade and investment and help business meet the challenges and opportunities of globalization. Its conviction that trade is a powerful force for peace and prosperity dates from the organization’s origins early in the 20th century. The small group of far-sighted business leaders who founded ICC called themselves “the merchants of peace”.

ICC has three main activities: rule setting, dispute resolution, and policy advocacy. Because its member companies and associations are themselves engaged in international business, ICC has unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in countless thousands of transactions every day and have become part of the fabric of international trade.

ICC also provides essential services, foremost among them the ICC International Court of Arbitration, the world’s leading arbitral institution. Another service is the World Chambers Federation, ICC’s worldwide network of chambers of commerce, fostering interaction and exchange of chamber best practice. ICC also offers specialized training and seminars and is an industry-leading publisher of practical and educational reference tools for international business, banking and arbitration.

Business leaders and experts drawn from the ICC membership establish the business stance on broad issues of trade and investment policy as well as on relevant technical subjects. These include anti-corruption, banking, the digital economy, marketing ethics, environment and energy, competition policy and intellectual property, among others.

ICC works closely with the United Nations, the World Trade Organization and intergovernmental forums including the G20.

ICC was founded in 1919. Today its global network comprises over 6 million companies, chambers of commerce and business associations in more than 130 countries. National committees work with ICC members in their countries to address their concerns and convey to their governments the business views formulated by ICC.