European Communities Trade Mark Association

28 June 2012

ECTA Position Paper on fake goods in transit: Trade Mark Infringement and Border Measures

I. Introduction

I.1. Background

ECTA considers the issue of fake goods in transit as being of paramount importance because, according to the most recent European Commission statistics that are available[1], namely those of the year 2008[2], over 60 % of the suspect goods intercepted by the Customs authorities of the European Union were blocked while in transit or under another suspensive procedure (including i.a. the customs warehousing procedure). In addition, recent findings by the authorities show that the goods-in-transit status is not merely used by traffickers to disguise that the goods delivered are destined to the European Union market, but to give them a touch of authenticity by pushing them through the European Union in order to disguise their real origin (e.g. fake medicines from Asia en route to Africa, an example cited by the European Commission in COM(2005) 479 final of 11 October 2005).

The practice of traffickers to simulate a European origin by transiting goods through the European Union especially harms the reputation of the European industry because this happens mainly with high-tech products that still originate in the European Union and thus need the "shipped from the EU" credibility to be accepted as originals in their country of destination. First of all, this practice has to be considered as an obvious misuse of international free trade provisions in the unlawful advantage of trafficking with counterfeit goods. Shipping trade mark counterfeit medicine to Africa is a crime against humanity. The same applies to fake technical products, such as brake-parts for the automotive industry or batteries which may cause a threat for the publics' health and safety in the place of destination. Furthermore the substandard quality of fake products can obviously have negative effects on the reputation of European products in the destination countries, especially if they cause actual damage to consumers, which harms the reputation of all right-holders in the European Union.

That is why ECTA is convinced that it is necessary to strengthen the right of action of right-holders to counter counterfeit goods in transit. This is necessary for the benefit of European business and of trade mark owners, but also to avail consumer protection in foreign countries, especially of those less-developed countries of the world which

[1] After 2008 and the row over medicine in transit infringing patent rights within the EU, but legally manufactured in India and legally sold in Brazil, further to which India and Brazil have instituted a WTO panel, EU Commission has no longer published these figures.

[2] http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/2009_statistics_for_2008_full_report_en.pdf

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rely on the support from other countries, to be protected against the import of dangerous and counterfeit goods.

I.2. Proposal to stop misuse of the freedom of trade provisions

There is ongoing discussion in the European Union on the question how to grant effective legal protection against the transit of fake goods using third parties trade marks without permission of the right-holder. In December 2011 the Court of Justice of the European Union decided in the joined cases Nokia/Philips (C-446/09 and C-495/09) that goods coming from a non-member state which are imitations of goods protected in the European Union by a trade mark right or copies of goods protected in the European Union by copyright, a related right or a design right cannot be classified as 'counterfeit goods' or 'pirated goods' within the meaning of the Regulations (EC) No 3295/94 and No 1383/2003 (Border Measures Regulation) merely on the basis of the fact that they are brought into the customs territory of the European Union under a suspensive procedure. Those goods may infringe the right in question and therefore be classified as 'counterfeit goods' or 'pirated goods' where it is proven that they are intended to be put on the market in the European Union. This judgment shows that the legal protection against infringing goods in transit based on the current substantive and procedural law is limited. Especially border measures cannot be used effectively in the fight against fake goods in transit if the place of destination is outside the European Union.

Against this background, it is common sense that modifications of the Border Measures Regulation and substantive law are required if the protection against infringing goods in transit is to be increased on the European Union level.

II. Proposed Changes in the Border Measures Regulation

Regarding those goods in transit for which it cannot be proven that they are intended to be put on the market in the European Union, there exists already a proposal by the European Parliament to amend the Border Measures Regulation (Amendment of the Proposal for a Regulation of the European Parliament and of the Council Concerning customs enforcement of intellectual property rights dated 25 April 2012; Proposal for a regulation of the European Parliament and of the Council concerning customs enforcement of intellectual property rights (COM(2011)0285 – C7-0139/2011 – 2011/0137(COD) - 3 March 2012). This proposal of the European Parliament recommends that the final destination of the goods should be presumed to be the market of the European Union in the absence of clear and convincing evidence to the contrary provided by the declarant, holder or owner of the goods. Under the condition that goods in transit are suspected to be an imitation or a copy of a product protected in the European Union by an intellectual property right, the declarant or holder of the goods should bear the burden of proving the final destination of the goods.

ECTA supports the intention of the European Parliament to strengthen the Border Measures Regulation in the fight against infringing goods in transit.

In view of the fact that the Proposal concerning the new Border Measures Regulation calls for a presumption – in the absence of clear and convincing evidence to the contrary provided by the declarant, holder or owner of the goods – that the final destination of goods in transit is the market of the European Union, it is clearly envisaged that this change in the burden of proof should be made in the new Border Measures Regulation. A change in the burden of proof is not a matter of substantive law. It is a matter of procedure, particularly in view of the fact that the Customs authorities are merely exercising an administrative decision on whether to detain suspected counterfeit or pirated goods.

The detention of suspect goods at the border is a provisional action, which does not affect the substantive legal rights of the importer.

Thus, if the customs authorities notice that the transport documentation, accompanying the goods, is incomplete, misleading, irregular or otherwise suspect, the goods should be regarded as being at risk of entering the European Union market. A provision in the new Border Regulation which clearly states this would be a simple procedural rule which would merely have the desired effect of requiring the importer to prove that the goods are not intended for the European Union market. It is important to note that this would arise only if the transport documentation is not in order.

In situations in which it appears that the transportation documentation is in order, it has to be underlined that, even if the above modification becomes realized, customs declarations, services of European warehouses and carriers will be still misused by traffickers and organized crime to distribute fake goods in non-member countries.

Therefore ECTA strongly recommends that in course of revising the current European Border Measures Regulation concerning customs enforcement of intellectual property rights, changes have to be made in order to address the difficulties regarding effective border measures against goods in transit.

ECTA endorses that the new Regulation should on one side provide effective procedures for the right-holder to hinder the importation of pirated or counterfeited goods under the disguise of the goods-in-transit status into the European Union and non-member states where the intellectual property rights are protected as well, but on the other hand these measures must not restrict the free trade as guaranteed by the WTO provisions. This conflict between trade mark protection and free trade provision was primarily seen in cases of parallel import or transit of so called grey market products which were subject to the cases of the Court of Justice of the European Union C-405/03, Class International, Slg. 2005, I-8735 and C-115/02, Rioglass und Transremar, Slg. 2003, I-12705. But the distribution of fake goods is not comparable with the distribution of original goods. WTO provisions guarantee the free trade of original goods in transit without restriction of trade mark law. But it is not satisfactory to accept the transit of fake goods as legal without restrictions of trade mark law.

III. Proposed Change in the substantive law (Trade Mark Harmonisation Directive and the Community Trade Mark Regulation) and the Border Measures Regulation

Based on the current substantive law and according to the latest judgment of the Court of Justice of the European Union, border measures can only be taken against fake goods provided they are intended to be put on the market in the European Union. This understanding is based on the principle of territoriality of intellectual property rights.

(1) On the other hand the territory of the European Union is affected as soon as European infrastructure, like harbors or airports, is used to ship fake goods to non-member countries. That is why the detention of such goods in the European Union is no contradiction against the principle of territoriality of intellectual property rights. The most effective protection to prevent traffickers and organized crime from misusing the freedom of trade provisions is to enact substantive laws providing that transit of fake goods using third party trade marks without the authorisation of the right-holder constitutes the illegal use of a trade mark in the sense of Article 5 (3) of the Trade Mark Harmonisation Directive (Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the law of the Member States relating to trade marks – Codified version).

It is ECTA`s position that this modification of the Trade Mark Harmonisation Directive is required.

(2) Furthermore international law, especially the Paris Convention (Paris Convention for the Protection of Industrial Property of 20 March 1883) accepts the fact that protection of trade marks in one country has repercussions on other countries as well. Article 6^{bis} of the Paris Convention grants protection for well-known trade marks in countries where trade marks are not yet registered. This shows that, according to the current substantive law, exceptions from the principle of territoriality of intellectual property rights are already accepted internationally.

In that regard ECTA supports provisions according to which an infringement of intellectual property rights by fake goods in transit should not only be assessed with regard to the laws applicable to the European Union but also with regard to the laws of the non-member country which is the destination country of the goods. In that regard ECTA supports the proposals the Max Planck Institute made on the topic of transit in its Study on the Overall Functioning of the European Trade Mark System of 8 March 2011.

This study concludes that it should be made clear that the authorities and the right-holders obtain the ability to stop goods-in-transit that infringe IP in their destination country and in the European Union in compliance with the TRIPS Agreement. This means essentially limiting infringement to “counterfeit goods”, as defined in footnote 14 (a) to Article 51 TRIPS (i.e. “*any goods, including packaging, bearing without authorization a trade mark which is identical to the trade mark validly registered in respect of such goods, or which is identical to the trade mark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trade mark, and which thereby infringes the rights of the owner of trade mark in question under the law of the country of importation*”) and in addition to that the goods would have to be infringing both in the territory of transit as well as in the country of destination (Max Planck Study on the overall Functioning of the European Trade mark System, p. 110-111 para 2.213-2.216).

This approach to determine the infringement not solely on the law of the concerned Member State, was already accepted by a judgment of the Federal Court of Justice in Germany in the year 1957. In this decision of the German Federal Court of Justice involving goods in transit through Germany to be shipped to an overseas territory, the trade mark holder claimed for an injunctive relief against the shipping agent. The Court confirmed that there was no trade mark infringement, but ruled that an infringement of the right-holders overseas' trade mark rights had to be prohibited on the basis of civil law (BGH 'Pertusin II' Decision, 15 January 1957, I ZR 56/55 - GRUR 1957, 352). This understanding was confirmed by the Court of Appeal of Hamburg (LG Hamburg, Urt. v. 1.3.2007 – 315 O 722/06; Urt. v. 26.7.2007 315 O 180/06; Urt. v.1.11.2007 315 O 60/07) and the Court of Appeal of Berlin (5 U 152/08, Oct. 12, 2010, currently under appeal with the German Federal Court of Justice) in a case concerning the seizure of goods-in-transit that were bound to Russia transiting through Germany. By correctly referring to the decisions of the Court of Justice of the European Union, the Court of Appeal of Berlin denied that these goods are in the "course of free trade", but approved a right to seize and destroy the goods under German tort law (Sec. 823, 1004 German Civil Code (BGB)), because to let them transit would inevitably lead to an infringement in Russia.

The concept of determining an intellectual property right infringement not only under the rules of the transit territory but also by taking into account the legal situation in the country of destination has its foundation in substantive intellectual property law and therefore should be reflected by rules on border measures, as these rules, as set out before, are meant to effectively support the enforcement of these provisions by the Customs authorities.

Bearing that in mind, ECTA proposes a modification of the substantive trade mark law of the European Union (i.e. Trade Mark Harmonization Directive and Community Trade Mark Regulation), which acknowledges the transit of fake goods using without authorisation a third party trade mark protected in the country of destination as a trade mark infringement in the European Union, and a fortiori when the trade mark is a well-known trade mark in the sense of Article 6bis Paris Convention.

Furthermore ECTA proposes to modify the provisions of Council Regulation (EC) No. 1383/2003, which should be extended to entitle the Customs authorities to detain fake products in transit that infringe trade mark rights under the condition that the trade mark is protected in the European Union and in the country of destination. Equal protection has to be guaranteed for trade marks which are protected based on a formal registration and those which are protected based on the reputation in the sense of Article 6bis Paris Convention. Following the principle that trade marks ought to be protected in all countries where they are registered or have acquired reputation, border measures have to be legal under the condition that:

- the trade mark is registered in the European Union;
- the goods in transit are fake;
- specific countries of destinations have been identified by the right-holder who has applied for border measures to stop goods in transit;
- the trade mark has been registered or has acquired the status of a well-known trade mark in the non-member country which is the country of destination of the fake goods in transit.

A trade mark protection in the country of destination indicates that the transit of goods is used to violate the trade mark. And it is often easy for the right-holder to give evidence of a foreign registration to the customs authorities. In these cases the indication justifies border measures to stop fake goods in transit, because the violation of the trade mark rights in the EU and in the country of destination. Taking into account the provisional and preventive character of border measures the declarant, holder or owner of the goods still has the option to object against the definitive seizure and the destruction of goods in transit and to give evidence under the reversed burden of proof that the goods in question are legally distributed in the country of destination.

Although ECTA is preferring a review of the Trade Mark Harmonisation Directive, whereby placing fake goods in transit would under certain conditions be considered as "use in the course of trade", ECTA is aware of the potential conflicts with the principle of territoriality of intellectual property law, therefore advocates that the modifications set out before, would provide a feasible compromise between, territoriality, freedom of trade and effective enforcement of intellectual property with respect to the decisions of the Court of Justice of the European Union as well as taking into account the recommendations of the Max Planck Study on improving the Overall Functioning of the European Trade Mark System.