Stopping fakes in their tracks

The European Communities Trade Mark Association’s Bárbara Diaz Alaminos and Max Oker-Blom review the past, present and future of IP infringements and goods in transit

The ‘goods in transit’ question has clearly been one of the most discussed issues during the ongoing work on European trademark reform. It has been heatedly debated on various fora. The recent decision made by the European Parliament seemed to put an end to this discussion. For the time being, it looks as though the matter has not been settled after all. Information has, namely, been circulated that goods in transit remains on the agenda for discussions between the parliament, council and Commission.

The EU provisions under which customs are enabled to stop goods in transit infringing IP rights are the Union Customs Code,1 the Border Measures Regulation,2 and the Community Trade Mark Regulation and Trade Mark Directive.3 The relevant case law dealing with transit within the EU customs territory of goods destined for third countries has been inconsistent.4

Trademark legislative package and relevant case law

Article 5 of the Community Trade Mark Directive grants trademark owners the right to prevent third parties from using their trademark in the course of trade. However, the possibility to effectively enforce this right, when it concerns goods in transit, is exclusively limited to counterfeit goods intended to enter into the internal market.

This approach was confirmed by the Court of Justice of the European Union (CJEU) in both Class Intl BV v Colgate Palmolive Co and in Montex Holdings Ltd v Diesel SpA.5 In these cases, customs authorities detained containers imported from a non-EU member state under the external transit procedure, which goods were in transit through the EU territory. The preliminary questions made to the CJEU concerned the interpretation of the Community Trade Mark Regulation and the Community Trade Mark Directive, in particular, the extent of the rights conferred on the owner of a trademark under these norms. The CJEU considered whether or not the owner of a trademark was entitled to prevent the transit of suspected counterfeit goods through the EU territory, and confirmed that such transit does not constitute an infringement in itself and that for a trademark owner to stop goods in transit, there has to be a risk that these goods may enter the internal market.

The community customs code

The conditions under which EU customs can stop suspicious counterfeit goods are stipulated in the Community Customs Code and in the Border Measures Regulation. Based on these rules, it may be interpreted that all goods in transit through the EU territory are subject to customs control.

In this regard, and inconsistent with the ruling in Class Intl and Montex, the CJEU confirmed, in PoloLauren Company v PT Dwianda Langgeng Pratama Intl Freight Forwarders and Montres Rolex & Ors,6 that goods entering the EU territory are subject to customs control. In this ruling, the CJEU revoked the ‘manufacturing fiction’ and confirmed its previous rulings in Class Intl and Montex, by specifying that for EU customs to be able to stop the transit of alleged counterfeit goods, the goods have to be detained consignments suspected of infringing IP rights, which originated from and were destined to a non-EU member state.

The CJEU was asked whether, based on the Community Customs Code and the Border Measures Regulation, such goods could be detained in transit, and if so, how long that detention would allow. In light of the previous case law, it seems that while the CJEU first supported that EU customs could stop counterfeit goods, in a second set of rulings, the CJEU contradicted its doctrine stating that transit did not constitute an infringement.

The ‘manufacturing fiction’ doctrine,7 then in order to solve this conflict.8 Pursuant to this fiction, a member state would understand that the goods in transit had been manufactured in the member state in question, in order to be able to establish the existence of an IP infringement.

The ‘manufacturing fiction’ was overruled by the CJEU in its Philips/Nokia judgment.9 In Philips/Nokia, the CJEU was compelled to clarify this doctrine by answering the questions of whether or not the application of the ‘manufacturing fiction’ was compatible with EU law and whether EU customs could impede the transit of alleged counterfeit goods.

The CJEU revoked the ‘manufacturing fiction’ and confirmed its previous rulings in Class Intl and Montex, by specifying that for EU customs to be able to stop the transit of goods infringing IP rights there has to be evidence that these goods are intended to enter the internal market. However, the CJEU lowered the standard of proof and clarified
that the burden of proof would be satisfied, in situations in which the destination of the goods had not been clearly or sufficiently declared.

This approach has been followed by Regulation 608/2013, currently in force, which repealed Council Regulation 1383/2003 concerning customs enforcement of IP rights. The amended regulation did not change, as some thought it would, the approach of the Philips/Nokia ruling. The new regulation contains, among others, rules enabling customs to intercept goods that appear to be fake and enabling national courts to establish when counterfeit goods may be destined to the internal market.

On 27 March 2013, the European Commission presented a package of initiatives to reform the Trade Mark Regulation and the Trade Mark Directive, which was intended to create better conditions for business to benefit from more effective trademark protection against counterfeits.

**Detention of goods in transit**

With the aim of protecting IP owners from counterfeits, the European Commission has proposed the modification of Recital 18 and Article 9(5) of the Trade Mark Regulation,11 and of Recital 22 and Article 10(5) of the Trade Mark Directive.12

From now on, EU customs will be able to stop counterfeit goods in transit through the EU territory even if they are not destined to an EU country, allowing European trademark owners to “prevent third parties from bringing goods into the customs territory of the Union without being released for free circulation there”.13

**The conflict of generic medicines**

Notwithstanding the changes made by the EU Commission with the introduction of the above-mentioned proposals, the new ‘goods in transit provisions’ have been criticised by those concerned about the validity of the regulation in relation to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and the General Agreement on Tariffs and Trade (GATT), both aimed at eliminating barriers to international trade.14

One of the starting points of this conflict was the complaint filed with the World Trade Organization (WTO) by certain developing countries (India and Brazil), with regard to the detention by EU customs (in the Netherlands) of generic medicines in transit from and to non-EU member states. The WTO stated that these detentions were against and inconsistent with Article V GATT, which protects the freedom of international trade.

This complaint is believed to have been one of the reasons why the CJEU overruled the ‘manufacturing fiction’ and confirmed in Philips/Nokia that only goods in transit destined to EU countries could be detained by EU customs.15

**First reading at the European parliament**

Taking into account the expressed concerns regarding a potential conflict with Article V GATT and TRIPS, the European People’s Party as well as the Socialist and Democrats Party of the European Parliament, suggested amendments to the European Commission’s proposals for the trademark Regulation and Directive, with the aim of contemplating and protecting the trade of generics and avoiding barriers to international trade.16

On 25 February 2014, these amendments were approved in a first reading by the European Parliament. If such amendments are definitively approved, the provisions on goods in transit will apply “without prejudice to WTO rules, in particular Article V of the GATT on freedom of transit”, and “without prejudice to the smooth transit of generic medicines”. The new provision would strengthen trademark protection without any detriment to WTO rules and to the transit of generic medicines as reflected in TRIPS.

**Summary**

It is apparent that from an EU and brand owner perspective it is important that the rule in this respect is as clear as possible. It will make life easier both for proprietors and customs authorities and the handling of the matter more efficient. It should not hamper legal trade so thus, serve both the European public and customers globally. The compromise reached by the European Parliament seems to fulfill these criteria.

**Footnotes**

5. Class Int’l BV v Colgate Palmolive Co (C-405/03) [2005] ECR 1-8735 CJEU and Montex Holdings Ltd v Diesel SpA (C-281/05) [2006] ECR I-10881 CJEU.
6. PoloLauren Company v PT Dwidua Langgeng (C-383/98) [2000] ECR 1-2519 CJEU, and Criminal proceeding against X (C-60/02) [2004] ECR I-651 CJEU.
7. The determination as to whether or not goods infringe an IP right is to be made on the premise that the underlying goods are manufactured in the country through which the goods transit.
10. See http://bit.ly/1jAHkJS
12. The text of the proposal for a directive of the European Parliament and of the council to approximate the laws of the member states relating to trademarks (Recast) is available at http://bit.ly/1HlLP1Q

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