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**Citation:** Bonadio, E. (2008). Protecting Intellectual Property Rights Through EU Customs Procedures. *International Trade Law & Regulation*, 14(4), pp. 80-88.

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## Protecting Intellectual Property Rights through EU Customs Procedure

published on *International Trade Law and Regulation*, Issue 4, 2008

### **Introduction**

This article addresses the EC legislation on customs action against goods suspected of infringing intellectual property rights (IPR) and in particular Council regulation (EC) No 1383/2003 of 22 July 2003.<sup>1</sup>

Before directly addressing this issue, it is worth spending a few words on the impact of counterfeiting activity, as well as the ways counterfeit and pirated goods are usually marketed.

Reference will also be made to the relevant regulations which preceded Regulation 1383/03 and the major amendments brought about by such regulations will be underlined. Such analysis is useful to show that (and how) customs authorities gradually year by year acquired more powers and used more incisive tools in order to stop the entry into the Community of counterfeit and pirated products.

Finally this article will briefly examine five European Court of Justice decisions which interpreted Community legislation on customs actions against products suspected of infringing IPR, and in particular infringement issues relating to non-Community goods in transit through the Community or stored in customs warehouses.

### **Counterfeiting and piracy: impact and trading techniques**

The infringement of IPR has recently increased drastically worldwide, including in the Community.

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<sup>1</sup> Council regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights (OJ L 196, 2.8.2003, p.7) (hereinafter also “Regulation 1383/03”). See also the implementing Regulation 1891/2004 of October 21, 2004.

On May 2007 the OECD published a report on international trade involving counterfeit and pirated products. The report – whose title is *The Economic Impact of Counterfeiting and Piracy* - <sup>2</sup> estimates that international trade in 2005 involving counterfeit or pirated works totalled US\$ 200 billion. The report also states that Asia is the largest source for such products, with China as the single largest source economy.

Moreover, as far as the Community is concerned, detainment of infringing goods by customs authorities has increased by 1000% in just six years, between 1998 and 2004.

Some years ago (in the 80s) only luxury products, such as expensive clocks, jewellery and famous textile products were counterfeited and illegally marketed. Nowadays infringers no longer imitate high-value and high-quality items but prefer to copy mass-produced goods, such as pharmaceutical and agricultural products, as well as cigarettes, toys, toothpastes, vehicle and aircraft spare parts.

The counterfeiting of toys and games also grew exponentially making toys the third most counterfeited product found at the Community's external borders in 2004 (more than 18 million objects seized). In the same year counterfeit medicines represented a rise of more than 45% from 2003. Counterfeit foodstuff, drinks and alcohol seizures increased in 2004 by 200% compared to 2003 to a figure of 4.5 million.

One of the reasons for this explosion in the trade of fakes is that criminals can now produce them on an industrial scale. This provides not only increased profits but also a new mechanism for efficient money laundering.<sup>3</sup>

Counterfeiting and piracy are now more attractive than other unlawful activities, such as drug smuggling, because of the higher profits and lower risks involved.<sup>4</sup> However the risk is often shifted to consumers who buy these fake products, since many counterfeit and pirated goods are usually manufactured without enforcing health and safety legislations. Let us think about the health-related consequences consumers often face when taking fake drugs which have been manufactured without respecting the above rules, or about the possible consequences of using fake toys (for example there have been cases of babies injured by unsafe fake toys). Moreover there have been cases of aircraft crashes caused by the unreliability of fake aircrafts components.<sup>5</sup>

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<sup>2</sup> The executive summary of the above report is available at <http://www.oecd.org/dataoecd/13/12/38707619.pdf>.

<sup>3</sup> See the press release from the European Commission of October 11, 2005, announcing an Action Plan to combat counterfeiting and piracy (available at <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/05/1247&format=HTML&aged=0&language=EN&guiLanguage=EN>).

<sup>4</sup> See H. Reimers, *Regulation 1383/2003 and the effects of Border Detention on Intellectual Property Rights*, p. 9 (available at [www.jur.lu.se](http://www.jur.lu.se)).

<sup>5</sup> On the health and safety related consequences of counterfeiting and piracy see also Recital 2 of Regulation 1383/03.

There are many ways counterfeit and pirated products circulate across borders.

*Breaking bulk*, for example, is a particular way of trade that professional infringers usually use. It consists in making the fake goods circulate across different States and zones prior to their arriving at the planned destination. This kind of trade confuses customs authorities, which cannot easily ascertain the place where these products have been manufactured.

Another frequent trading technique in counterfeit and pirated goods is also the so-called *ant-like traffic*, i.e. tourists purchasing goods while being on holiday and bringing them across borders. In general the said consumers – when buying and travelling with fake products – do not know they indirectly support and finance criminal organizations involved in the production and sale of fake goods.

An additional way of trading infringing goods is mixing genuine and counterfeit products at the same time, in the same shipment for example.

### **The legal scenario before Regulation 1383/03**

Year after year the Community institutions and the Member States have become more and more aware of the fact that the phenomenon in question is extremely harmful to the internal market and to the business activities of IPR holders.

Accordingly at the Community level rules have been adopted with a view to offering the customs authorities of the Member States specific tools for stopping the importation of infringing goods.<sup>6</sup>

The first step was *Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit products*.<sup>7</sup> This regulation came into force on January 1<sup>st</sup> 1988 and provided customs authorities with a major role in the fight against trademark-infringing products entering the Community from third countries.<sup>8</sup>

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<sup>6</sup> These rules have been deeply analysed by the legal doctrine. See M. Ricolfi, *Le misure doganali a tutela della proprietà intellettuale*, in *Studi di diritto industriale in onore di Adriano Vanzetti – Proprietà intellettuale e concorrenza*, Giuffrè, Milano, 2004, pp. 1243-1297, as well as the articles of A. Clark *European Community*, in M. Blakeney (edited by), *Border Control of Intellectual Property Rights*, London, Sweet & Maxwell, 2001 and *The Use of Border Measures to Prevent International Trade in Counterfeit and Pirated Goods: Implementation and Proposed Reform of Council Regulation 3295/94*, 1998 *EIPR*, pp. 414 et seq. See also J. Phillips, “*Fakin’it*”, 1999 *EIPR*, pp. 275 et seq.

Also at international level specific rules regarding the customs actions in question have been adopted. In particular see artt. 51-60 of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs Agreement) of the World Trade Organization (WTO). For a comment of these provisions see D. Gervais, *The TRIPs Agreement: Drafting History and Analysis*, Sweet & Maxwell, London, 2003, pp. 310-326, as well as T. P. Trainer, *TRIPs Border Measures Implementation: Details to Consider*, 1995, 74 *Trademark World* 24, pp. 25 et seq.

<sup>7</sup> See also the implementing Regulation 3077/87 of October 14, 1987.

<sup>8</sup> Customs action was (and is currently) limited to goods which infringe registered trademarks (not *de facto* trademarks).

However IPR holders were required to inform customs that they suspected a delivery of counterfeit goods entering the Community market. Without such information customs could not trigger any procedure. Therefore under this regime, without the intervention and the stimulus of IPR holders, customs could do nothing to stop the importation of trademark-infringing products (in other terms, no *ex officio* procedure was envisaged by this regulation). Subsequently the above regulation was replaced by another, i.e. *Council Regulation 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods*.<sup>9</sup> This new regulation was an extended version of the previous one, since it included measures against so-called “pirated” goods, i.e. products which infringe copyrights and design rights.<sup>10</sup> This extension has been successful as far as copyright infringement is concerned: for example, in 1998 10% of customs interventions were related to suspected or actual copyright infringement. On the contrary, the protection of design rights has not been so successful: in 1998 only 5,8% of all interventions involved a design right (the trend is analogous under the current legislation). This is due to the fact that fake trademarks are visually easier to detect than fake designs. Moreover goods found to infringe a design right often bear a fake trademark, and customs prefer to act under the rules relating to trademarks because of their long experience of stopping and detaining trademark-infringing goods.<sup>11</sup>

The above mentioned regulation was amended in 1999 by *Council Regulation (EC) No 241/1999 amending Regulation (EC) No 3295/94*. This new regulation extended the scope of application to patent-infringing goods and therefore as from 1999 customs were entitled to stop and detain such products too.<sup>12</sup>

Discussions whether the infringement of patents should be introduced in a regulation on border measures took place even earlier, *i.e.* in the preparatory works for Regulation 3295/94. Indeed at that time patent infringements were taken into serious consideration, as all recognized the importance of protecting patents in the modern economy. However in 1994 the European Commission – despite the stress on the importance of patent protection in the modern economy – considered that it was too early to include patents and technically too difficult for customs to detect patent-infringing products. Firstly, Regulation 3295/94 had

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<sup>9</sup> See also the implementing Regulation 1367/95 of June 16, 1995. For a brief comment of Regulation 3295/94 see F. Abbott – T. Cottier – F. Gurry, *The International Intellectual Property System, Commentary and Materials*, Kluwer Law Int., The Hague, London, Boston, 1999, pp. 1608 et seq.

<sup>10</sup> It must be considered that, according to Community legislation, IPR infringements may be called either “counterfeiting” or “piracy”. Counterfeiting is the imitation of trademarks, whereas piracy amounts to the violation of copyrights or design rights. However the all-embracing expression “counterfeiting” is very often used as the generic name of all violated IPR (trademarks, copyrights, designs, patents, etc.).

<sup>11</sup> See Reimers, above fn. 4, p. 21.

<sup>12</sup> See also the implementing Regulation 2549/99 of December 2, 1999.

already introduced the new concept of pirated goods (and the extensions/amendments to previous legislation at the Community level are usually made step-by-step). Secondly, it must be borne in mind that the assessment of patent infringement is more difficult than the assessment of trademark or copyright infringement, where visual comparison between the fake and the original product is usually enough to ascertain the violation. On the contrary, in order to find out whether a good infringes a patent, it is often necessary to inspect *inside* the product itself and discover if the patented product or process is imitated.

The difficulties in detecting patent infringements is confirmed by the following data. In 1999, after Regulation 3295/94 was amended, border measures on patent-infringing goods were still seldom applied. For example, in 2000 only 1% of the total number of cases referred to goods suspected of infringing patent rights.<sup>13</sup>

Finally, on July 1<sup>st</sup> 2004 a new regime entered into force, i.e. the already mentioned Regulation 1383/03.

### **Regulation 1383/03: how the procedure works**

Like previous regulations, Regulation 1383/03 aims to prevent counterfeit and pirated products from entering the Community.

Indeed, as mentioned earlier, infringers often act as criminal organizations and that puts pressure on customs to improve their recognition of infringing goods and to stop their importation and transit into the Community.

According to Regulation 1383/03, customs services are able to act either on their own initiative or at the request of IPR owners. The specific aim of the procedure envisaged by Regulation 1383/03 is to strengthen the collaboration between customs authorities and IPR holders, in order to speed up and make effective the detection and detainment of fake goods at the external borders of the Community.

The intervention of customs authorities may be divided in two phases.

In a first phase the control system is alerted to a state of readiness and preparatory measures are taken to enable actual intervention, whereas in the second phase customs authorities actually intervene.<sup>14</sup>

#### *The first phase*

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<sup>13</sup> See Reimers, above fn. 4, p. 23.

<sup>14</sup> See K. Daele, *Regulation 1383/2003: A New Step in the Fight against Counterfeit and Pirated Goods at the Borders of the European Union*, 2004 E.I.P.R., pp. 217 et seq.

According to art. 4.1 of Regulation 1383/03, when customs authorities believe that there are sufficient grounds to suspect that goods discovered during an action infringe IPR, they may, on their own initiative, suspend release or retain goods for a period of three working days. This is therefore an *ex officio* procedure which enables customs authorities to notify IPR holders - especially small and medium-sized enterprises (SMEs), that may not realise that their IPR may be infringed and have therefore never applied for action - that goods suspected of counterfeiting or pirating their rights have been intercepted.

After customs authorities intervention IPR holders can lodge an application for action before the said authorities.<sup>15</sup>

The application for action must contain relevant information, *e.g.* about the fake goods, the original products, the rights holder, etc.

### *The second phase*

On the basis of the information contained in the application for action, customs may suspend release or retain allegedly counterfeit goods (art. 9.1 of Regulation 1383/03). The right owner has then a period of 10 days (renewable once) to inspect the goods. Upon his request, the right holder is also informed of the names and addresses of the consignee, the consignor, the declarer of the holder of the goods (if known) and the origin.

During the period of suspension the IPR holder may take the following actions.

On the basis of the information provided to it by customs authorities – *e.g.* nature and quantity of the suspected goods, name and address of the consignee and consignor, provenance of the goods, samples, etc. – the IPR holder may initiate proceedings before the competent authority in order to determine whether the goods are counterfeit or pirated.<sup>16</sup>

If at the end of this procedure the suspected goods are found to infringe an intellectual property right, such goods will not be (i) allowed to enter into the Community customs territory, (ii) released for free circulation, (iii) removed from the Community customs territory, (iv) exported, (v) re-exported, (vi) placed under a suspensive procedure and (vii) placed in a free zone or free warehouse.<sup>17</sup> Therefore this system not only prevents counterfeit and pirated goods from entering the European market directly, but also from being placed on any other market from where they could possibly be re-exported into the Community.

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<sup>15</sup> IPR holders may lodge an application for action also in case the customs authorities have not triggered the *ex officio* procedure.

<sup>16</sup> If the IPR holder fails to do so within ten working days (or three in the case of perishable goods) of the suspension period, the customs authorities are no longer allowed to detain them and must release the same, subject to completion of all customs formalities.

<sup>17</sup> See art. 16 of Regulation 1383/2003.

## **The innovations brought about by Regulation 1383/03**

What are the differences between Regulation 1383/03 and those previous?

Generally speaking, Regulation 1383/03 aims to provide more efficient, clearer and easier to apply rules for protecting IPR at the Community external border. First of all, Regulation 1383/03 broadens the scope of legislation by covering geographical indications, plant variety rights and designations of origin in addition to trademarks, copyright, designs and patents. The extended scope aims to help the food and drink industry, since – as mentioned earlier – demand for infringing products has recently changed from luxury goods to all products including foodstuffs.<sup>18</sup>

### *Amendments brought about by Regulation 1383/03*

- (i) Amendments were also made with reference to the application forms for action, which are used to request customs to detain suspected products when they are entering the Community for circulation, transit or re-export. Indeed such applications are now standardised and available on the Internet, so that the use of computer links to make request is encouraged.<sup>19</sup> Moreover Regulation 1383/03 improves the quality of the information and data that IPR owners provide to customs services when filing an application (*e.g.* about the kind of suspected products they expect, description of the trademarks that are going to be imitated, possible country of production of the fake goods, possible routes that the suspected products might use before entering the Community market, etc.).
- (ii) Regulation 1383/03 also suppresses the fees for filing an application before customs, as well as the requirements for bank guarantees/securities, which were requested under the previous legislation.<sup>20</sup> This innovation was beneficial and has provided increased protection to SMEs, which have fewer financial resources than big corporations. Indeed nowadays SMEs are suffering more than major multinationals from piracy and counterfeiting and accordingly have become increasingly aware of the importance of enforcing their IPR against infringers and in particular of stopping the flow of fake products.<sup>21</sup>

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<sup>18</sup> See Reimers, above fn. 4, p. 17.

<sup>19</sup> See Reimers, above fn 4, p. 14.

<sup>20</sup> Indeed art. 3.2 of Regulation 3843/86 provided that the applicant could be charged a fee to cover the administrative costs incurred in dealing with the application. See also art. 3.4 of Regulation 3295/94.

<sup>21</sup> For an analysis of the impact of counterfeiting and piracy on European SMEs' business see the study by S. Rodwell – P. Van Eeckhout – A. Reid – J. Walendowski, *Effects of counterfeiting on EU SMEs and a review of various public and private IPR enforcement initiatives and resources*, 2007 (available at [http://ec.europa.eu/enterprise/enterprise\\_policy/industry](http://ec.europa.eu/enterprise/enterprise_policy/industry)).

However the concept of guarantees is replaced by art. 6 of Regulation 1383/03, which obliges IPR holders to give, together with the application for action, a *declaration of liability*. This means that the IPR owner that triggers the procedure in question must declare that it will bear the costs borne by the suspected infringer, in the event that the procedure is discontinued owing to an act or omission by the right holder or in the event that the suspected goods are subsequently found not to infringe an intellectual property right. Moreover through the above declaration of liability the IPR holder agrees to bear the costs incurred in keeping goods under customs control, as well as the costs of the necessary translation, if it lodges applications in several Member States or applies for a single Community application.

(iii) Regulation 1383/03 also extends the scope of the *ex officio* procedure (such procedure – as mentioned earlier - allows customs authorities to react without a prior application for action by the trademark holder). In particular under Regulation 1383/03 customs have the right to take an *ex officio* initiative to detain products if they have just “*sufficient grounds*” for suspecting that such goods infringe an intellectual property right.<sup>22</sup> The requirement of suspiciousness is therefore milder than under previous legislation. Indeed under the previous regime customs authorities could trigger an *ex officio* procedure only in the case of an “*evident*” infringement.<sup>23</sup>

(iv) Under previous regulations IPR holders might have to wait months before customs authorities decided whether to grant the application for action or not. On the contrary under Regulation 1383/03 customs must notify IPR holders in writing within 30 days from the filing of the application. This is a great innovation, as it speeds up the whole procedure.

(v) Another important amendment to the previous regulation permits customs offices to take samples and send them to the IPR holder to be analysed.<sup>24</sup> In other terms, IPR owners have the right to inspect the suspected goods and use them as evidence in a subsequent legal proceedings.

(vi) Regulation 1383/03 also introduced a simplified procedure for the destruction of infringing goods, which facilitates the whole job for customs offices and IPR holders<sup>25</sup> (such simplified procedure was not provided by the previous regulations).

According to this procedure IPR holders may request customs authorities which detain the suspected goods to destroy such products immediately, even without there being any need to determine whether their right has been infringed (that is why it has been called “simplified procedure”). The destruction takes place if the declarer, holder or owner of the goods agrees

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<sup>22</sup> See art. 4.1 of Regulation 1383/03.

<sup>23</sup> See Reimers, above fn. 4, p. 32.

<sup>24</sup> See art. 9.3 of Regulation 1383/03.

<sup>25</sup> See art. 11.1 of Regulation 1383/03.

to the said destruction: accordingly in this case there is no need to start proceedings to establish whether IPR have been infringed and this is very helpful and useful as it reduces the costs involved in bringing legal actions, which are usually lengthy and expensive. The simplified procedure also facilitates the problem of storage of detained goods. This kind of procedure is usually triggered when dealing with small consignments of products and where the recipient of such goods is not known.

(vii) Moreover under Regulation 1383/03 customs are allowed to stop travellers suspected of being couriers as part of large-scale operations.<sup>26</sup> Under the previous regime, travellers of all kinds were excluded from any customs control if they were within the duty-free limits. This is highly beneficial to IPR holders, since – as mentioned earlier - there are many counterfeit goods which circulate in this way (*ant-like traffic*). For example, statistics from 2003 showed that 45% of the *ex officio* procedures involved travellers, proving that this is a widespread way of introducing infringing products into the Community.<sup>27</sup> IPR holders therefore found that excluding travellers from the reach of customs' powers was inappropriate (although some object that excluding travellers from customs' control would avoid the clearance of travellers personal baggage and thus much inconvenience).

### **The results of Regulation 1383/2003**

Since Regulation 1383/03 entered into force in 2004 million fake goods have been stopped and detained. For example, the 103 million counterfeit and pirated goods seized in 2004 represent an increase of more than 12% compared to 2003 and 1000% compared to 1998. After Regulation 1383/03 customs seize more than 100 million articles per year, e.g. from 2003 to 2004 the number of customs operations involving fakes more than doubled to 22,000 annually.

These results show that Regulation 1383/03, compared to the previous, has been successful. Applications for action have increased from 981 in 2000 to 2888 in 2004. This sharp increase in the number of applications confirms that IPR holders trust in, and consciously use, this regulation.

### **The rulings of the European Court of Justice**

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<sup>26</sup> See Recital 11 of Regulation 1383/03.

<sup>27</sup> See Reimers, above fn. 4, p. 15.

The rules on detainment of suspected goods by customs authorities have been interpreted several times by the European Court of Justice (ECJ).<sup>28</sup> It is worthwhile to examine five cases involving both the interpretation of Regulation 3295/94 and in general infringement issues relating to non-Community goods in external transit through the Community or placed in a customs warehouse.

### *The Polo / Lauren case*

An important interpretation of Regulation 3295/94 (as amended in 1999) was given by the ECJ in the *Polo / Lauren* case.<sup>29</sup> In this case the ECJ affirmed that goods in external transit, i.e. from a non-Community Member State destined to another non-Community Member State (but in transit through the Community), suspected of violating IPR are included within the scope of the regulation in question.

The case was the following.

The company *Polo / Lauren* obtained a decision from the Austrian customs authorities requiring the customs office to suspend release and to detain fake Polo T-shirts bearing a sign featuring its verbal and pictorial trademarks. Pursuant to that decision, 633 fake t-shirts were temporarily detained in a customs warehouse in the Austrian town of Linz. The consignor of the goods was an Indonesian company and the consignee was a Polish company (at that time Poland was not a European Union Member).

The trademark owner *Polo / Lauren* then applied to the Linz Regional Court for an order prohibiting the consignor from marketing the fake goods and authorizing the destruction of such products.

The Austrian Supreme Court – to which the matter was referred - was unsure whether Regulation 3295/94 applied where goods imported from a non-Community Member State are temporarily detained by a customs office while they are in transit to another non-member country and where the right holder (in this case the US company *Polo / Lauren*) is not from the Community.

The ECJ held the view that Regulation 3295/94 did apply in the above mentioned case. Therefore, according to such interpretation, IPR owners are allowed to oppose the entry into the Community, and in particular to request and obtain the detainment, of infringing products

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<sup>28</sup> So far, national courts did not render much case law regarding IPR-related customs actions. This is also because, when customs detect and detain IPR-infringing goods, infringers often prefer not to embark upon difficult-to-win legal fights and do not object to the said detainments (and thus abandon the suspected products). See Ricolfi, above fn. 6, p. 1245.

<sup>29</sup> Case C-383/98 (ruling of April 6, 2000). For an analysis of this ruling see 2001 *Trade Mark Reporter*, p. 385.

while they are in transit from a non-Community Member to another non-Community Member.

The ECJ based its decision on the following grounds.

The external transit of non-Community goods is not completely devoid of effects on the internal market. It is in fact based on a legal fiction (*fictio iuris*): indeed goods placed under this procedure are subject neither to the corresponding import duties nor to the other measures of commercial policy:<sup>30</sup> it is as if they had not entered the Community territory.<sup>31</sup> However, in reality, they are imported from a non-Community country and pass through one or more Member States before being exported to another non-Community Member. According to the ECJ such an operation is all the more liable to have a direct effect on the internal market, as there is a risk that infringing goods placed under the external transit procedure may be subsequently and fraudulently brought on to the Community market. Therefore the potential impact of such movement of goods appeared sufficient to justify the broadening of the scope of Regulation 3295/94.<sup>32</sup>

#### *The Rolex case*

An analogous interpretation was given by the ECJ in the *Rolex* case.<sup>33</sup> This case concerned the transit through Austria of Chinese-origin watches destined for the Slovak market and suspected of violating trademark rights (at that time Slovakia was not a European Union Member).

The case was referred to the ECJ by an Austrian investigating court having jurisdiction under criminal law. The Austrian court made reference to the above mentioned *Polo / Lauren* case, in which the ECJ held that Regulation 3295/94 also applied to the mere transit of non-Community goods. However since the decision in *Polo / Lauren* had been given in a civil case, the Austrian court was uncertain as to whether the same reasoning was applicable to criminal law matters. The case was referred to the ECJ.

The ECJ was then asked whether Regulation 3295/94 precludes a national provision which may be interpreted as meaning that the mere transit of counterfeit goods is not punishable under criminal law.

The ECJ took into consideration that art. 11 of Regulation 3295/1994, in conjunction with art. 2, requires Member States to introduce penalties to apply to infringements of the prohibition

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<sup>30</sup> See art. 91.1(a) of the Community Customs Code.

<sup>31</sup> See par. 34 of the ruling.

<sup>32</sup> See O. Vrins – M. Schneider, *Trade mark use in transit: EU-phony or cacophony?*, *Journal of Intellectual Property Law & Practice*, 2005, pp. 43 et seq.

<sup>33</sup> Case C-60/02 (ruling of January 7, 2004).

on the transit of counterfeit and pirated goods. The ECJ then ruled that, if the national court were to find that the relevant provisions of national law do not prohibit and therefore do not penalise the mere transit of counterfeit goods through the Member State concerned, it would be proper to conclude that the above mentioned articles of Regulation 3295/94 preclude (and overwhelm) the national provisions in question.<sup>34</sup> In other terms, the ECJ was concerned that, if counterfeit products could be transported across Community territory without incurring any effective penalties by virtue of a mere declaration that the final destination of those goods is in a non-Community country, there would be a high risk of shipments declared as being in transit in fact ending up on the Community market.<sup>35</sup>

### *The Class International Case*

In this case the ECJ did not interpret regulations concerning the detainment of infringing products by customs authorities.<sup>36</sup> However, the ruling is interesting as the ECJ seemed here to contradict the rationale of its previous decision in the *Polo / Lauren* case.

This case regards original products (i.e. toothpastes), which were shipped without the trademark owner's consent from South Africa to Rotterdam. The said goods were placed in a customs warehouse and therefore had not been cleared by any customs in the Community.<sup>37</sup>

The purchaser of the goods (the company *Class International*) claimed that the goods in question were not imported into the Community, but were in transit.

Firstly, as requested by the trademark owner, the Dutch custom detained the suspected goods according to Regulation 3295/94, assuming that they were counterfeited. Afterwards it was found that the detained products were not counterfeited, but original. Therefore the trademark owner could no longer rely on Regulation 3295/94 to ground the detention of the goods.<sup>38</sup>

The holder of the detained goods applied to the Dutch court for the release of the goods and the court rejected the application. The said holder appealed against that decision to the Hague

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<sup>34</sup> See par. 58 of the ruling.

<sup>35</sup> This was the position of the Finnish government (see par. 41 of the ruling).

<sup>36</sup> Case C-405/03 (ruling of October 18, 2005).

<sup>37</sup> Customs warehousing is a procedure enabling importers to store imported goods where it is not known at the time of importation how the goods will finally be disposed of. The goods may subsequently be re-exported, in which case there will have been no need to pay import duties, or released for free circulation, at which point import duties will be payable. In this regard see the opinion of Advocate General (AG) Jacobs delivered in this case on May 26, 2005. The customs warehousing and the external transit procedure are "suspensive procedures" under Article 84.1(a) of the Community Customs Code.

<sup>38</sup> Indeed Regulation 3295/94 does not apply to grey market goods, i.e. goods which bear a trademark with the consent of the trademark owner, or are protected by a copyright or a design right and which have been manufactured with the consent of the right holder (art. 2.4). Analogous provision is contained in art. 3.1 of Regulation 1383/03.

Court of Appeal, claiming that the products in question were not imported but in transit. The question was then referred to the ECJ.

The ECJ held that a trademark owner cannot oppose the mere entry into the Community, under the external transit procedure or the customs warehousing procedure, of original trademarked goods which had not already been marketed in the Community by that right holder with his consent. In other words, according to this ruling, the temporary storage in a customs warehouse of original trademarked goods with customs transit status and the transit of such products to States outside the Community does not constitute trademark infringement.<sup>39</sup>

### *The Diesel case*

This case followed the detention by German customs under EC Regulation 3295/94 of clothes unlawfully bearing the trademark *Diesel* in transit through the German territory.<sup>40</sup> These products had been manufactured in Poland by the company *Montex* without the consent of the trademark owner and destined to Ireland (at that time Poland was not a European Union Member). The trademark holder – who had applied for, and was granted, border measures – had not registered the sign in Ireland and therefore could not oppose the placing of the goods on the Irish market.

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<sup>39</sup> The same conclusion was reached by AG Jacobs in his opinion. He stressed that the essential function of a trademark is not compromised solely by the fact that goods genuinely bearing that mark are subject to the external transit procedure and hence by definition are not in free circulation within the Community. Such a situation, without more, cannot affect or be liable to affect the functions of the trademark (see par. 29 of the opinion). In other terms, according to Mr Jacobs, in these cases no “trademark use” is made in the course of trade. Similar conclusions had already been reached by the ECJ in both the *Commission v. France* (C-23/99) and *Rioglass* cases (C-115/02) (although these two cases concerned the free movement of Community goods). In the former case the ECJ emphasised that transit does not form part of the specific subject-matter of industrial property rights (par. 43); in the latter case the ECJ held that transit, which consists in transporting goods lawfully manufactured in a Member State to a non-member country by passing through one or more Member States, does not involve any marketing of the goods in question and is therefore not liable to infringe the specific subject-matter of the trademark (par. 27).

The ECJ ruling and AG opinion in *Class International* have been criticized by O. Vrins – M. Schneider, above fn. 32, pp. 43 et seq. In particular, the position taken by the ECJ and AG Jacobs was attacked by IPR owners, as it makes it difficult to enforce trademark rights against original grey market products. In the case at issue, the IPR holders involved stressed that in their opinion the fact that the import formalities were not yet completed and that the goods were therefore not yet in free circulation was not relevant: indeed – as the ECJ confirmed in *Polo / Lauren* - most transit procedures involve the risk that the goods may be put into free circulation in the Community without the consent of the IPR owner, who must therefore be in a position to oppose the import of the goods and their presence, even temporary. AG Jacobs tried to justify the differences between the ECJ decision in *Polo / Lauren* and its opinion in *Class International*, by pointing out that the former regarded counterfeit products, whereas the latter concerned original grey market goods, manufactured with the consent of the IPR owner (see parr. 33-34 of the opinion).

The ECJ decision and the AG Jacobs opinion seem also to contradict the rationale of the above mentioned art. 16 of Regulation 1383/03, according to which goods found to infringe IPR at the end of the procedure envisaged by the said regulation shall not be placed under suspensive procedures, which – as mentioned earlier – include customs warehousing and external transit.

<sup>40</sup> Case C-281/05 (ruling of November 9, 2006).

On the one hand, *Montex* objected against the ordering of the detention of the products in question, as it held that the mere transit of goods through German territory did not infringe any of the rights conferred by the trademark. On the other hand, the trademark holder *Diesel* maintained that this transit constituted an infringement of its trademark rights because of the risk of goods being marketed in the Member State of transit.

After judgement was passed against *Montex* at first instance and on appeal, the said company lodged an appeal on a point of law with the *Bundesgerichtshof* (German Federal Supreme Court), which then referred the case to the ECJ.

The decision of the ECJ was similar to the one rendered in *Class International*. It stated that the trademark holder can prohibit the transit - through a Member State in which that mark is protected (Germany in the case in question) - of goods unlawfully bearing the trademark and placed under the external transit procedure, whose destination is another Member State where the mark is not so protected (Ireland in the present case), only if those goods are subject to the act of a third party while they are placed under the external transit procedure which necessarily entails their being put on the market in that Member State of transit.

AG Maduro in his opinion was clearer.<sup>41</sup> Firstly he stressed that – in order to detect whether in these cases there is trademark infringement - it is necessary to establish if the transit of goods is likely to damage the particular interests of the company *Diesel* as proprietor of the trademark in Germany. He found that the external transit of *Montex*'s goods bearing the sign *Diesel* does not *prima facie* constitute an infringement of *Diesel*'s trademark rights in Germany; indeed, according to AG Maduro, such transit does not bring the goods into contact with marketing facilities in that State which could give rise to an infringement of the essential functions of the trademark.<sup>42</sup> AG Maduro stressed that in the case in question infringement of trademark rights in the State of transit could have been established only where there was evidence to support a reasonable presumption that the infringing goods would not be marketed exclusively in Ireland, but also in other countries in which the mark enjoys protection, including the State of transit.<sup>43</sup>

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<sup>41</sup> See the opinion of AG Póitares Maduro delivered on July 4, 2006.

<sup>42</sup> As AG Maduro pointed out (par. 26 of his opinion), the acknowledged key role of the marketing of goods in establishing that the trademark proprietor's rights have been infringed in the State of transit is apparent also from the judgment in *Commission v France* and later in *Rioglass*. Although these two cases concerned the free movement of Community goods, they show that, in the context of industrial property law, it is only acts of marketing the goods that are likely to infringe the proprietor's rights in the State of transit (see above fn. 39). It follows that, in the absence of such acts, it cannot be established that there has been an infringement of the rights of the trademark proprietor in the State of transit.

<sup>43</sup> See par. 24, 31-32 of the opinion. AG Maduro also explained why this case should have been decided differently from the *Polo / Lauren* case. Indeed in the latter the goods at issue were highly likely to be marketed unlawfully in the Community and accordingly the ECJ considered that the intervention measures laid down in Regulation 3295/94 should have been taken, even though the goods at issue were under an external transit procedure. The ECJ itself expressly declared in *Polo / Lauren* that the goods at issue placed under the external

## *The Adidas case*

In this case the ECJ interpreted a particular provision of Regulation 3295/94, i.e. art. 6.1.<sup>44</sup> According to this provision the customs office which deals with an application from an IPR holder must notify the latter, at his request, of the name and address of the declarer and, if known, of those of the consignee so as to enable the said IPR owner to ask the competent authorities to take a substantive decision. A similar provision is contained in art. 9.1 of Regulation 1383/03.

The case was the following: on February 16, 1998 the Swedish customs office suspended the release for free circulation of certain goods and informed the company *Adidas* that they could be fake products infringing its trademark. Under the above regulation the goods could be detained until March 17, 1998 inclusive. After that date the customs authorities considered that they could no longer lawfully detain the goods since the company *Adidas* had not referred the case to an ordinary court.

The trademark owner appealed against that refusal, claiming that, in order to refer the case to an ordinary court, it had first of all to obtain information about the consignee of the goods (e.g. its identity and address). The request was rejected by the Swedish customs authorities because it was considered to be contrary to the provisions of Swedish national legislation on protection of confidential information (under that legislation such information cannot be disclosed).<sup>45</sup>

The trademark owner appealed to the national court, i.e. the *Kammarrätten I Stockholm*.<sup>46</sup> According to this Court the customs office could not disclose the information in its possession since disclosure of the information requested by *Adidas* was likely to cause damage to the consignee of the goods: indeed, according to the above Swedish national law the principle of protection of confidentiality applies to information concerning an individual's personal or financial circumstances obtained in the course of customs control.

The case was referred to the ECJ. In particular, the ECJ was asked whether Regulation 3295/94 constituted a bar to application of rules of national law under which the identity of

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transit procedure might be fraudulently brought on to the Community market. However, unlike in the present case, the goods at issue in *Polo / Lauren* were not on their way, under the external transit procedure, to a Member State in which they could be marketed freely (par. 43 of the opinion).

<sup>44</sup> Case C-223/98 (ruling of October 14, 1999).

<sup>45</sup> See par. 2 of Chapter 9 of the *Sekretesslagen* (Swedish Law on Protection of Confidential Information). Under this provision information obtained by the customs office regarding individual's personal and financial circumstances may be disclosed if it is shown that this will not result in any damage to the individual concerned.

<sup>46</sup> The trademark owner claimed that such refusal meant that in practice Regulation 3295/94 was not applicable and was therefore contrary to Community law. See the position of AG Cosmas in his opinion delivered on June 10, 1998, par. 5.

consignees of imported goods (which the trademark owner has found to be counterfeit) may not be disclosed to the said owner.

The ECJ concluded that Regulation 3295/94 precluded the said rule of national law. In other terms, the ECJ stated that too strict national legislation could not undermine and jeopardise the purpose of the regulation. Therefore the needs relating to the combating of certain infringements should be regarded as justifying the introduction of exceptions to the rules adopted to protect personal or professional confidentiality.<sup>47</sup> The rationale of such ruling can be transposed *mutatis mutandis* to Regulation 1383/03, which contains a provision (art. 9.1) similar to the one interpreted by the ECJ in the *Adidas* case (*i.e.* art. 6.1 of Regulation 3295/94).<sup>48</sup>

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<sup>47</sup> See par. 43 of AG Cosmas opinion. According to AG Cosmas the trademark holder has a central place in the Community system for combating the trade in counterfeit and pirated goods and such system is largely dependent on the said trademark holder having access to extensive and exhaustive information for it to operate in a satisfactory manner. In particular AG Cosmas stressed the fundamental difference between Regulation 3295/1994 and Regulation 3842/86, which was the precursor to and was repealed by Regulation 3295/94. Under the earlier legislation the trademark holder was not granted access to the information regarding the importer of goods, even where the authorities suspected that the same were counterfeited, if the competent national authority had not yet taken a substantive decision. Therefore – as AG Cosmas pointed out – the extension of the trademark holder’s right to information is directly connected to the extension of his role in the procedure. His task is essentially to refer the matter to the national authorities which are competent to take a substantive decision in order to obtain a final decision on whether or not the detained goods are genuine. Therefore, if the identity of the consignee of the goods may not be disclosed to the trademark holder, it is impossible for him to refer the matter to the competent national authorities. In such a way the system which Regulation 3295/94 sought to introduce would inevitably lose much of its practical benefit or even become entirely ineffective. See parr. 16-18 of AG Cosmas opinion.

<sup>48</sup> However, art. 12 of Regulation 1383/03 also provides that an IPR holder receiving information about the consignee of the products should use such information only for the purposes set forth by the regulation. Indeed any other use may cause the IPR owner to incur civil liability according to the laws of the Member State where the situation arises and lead to the suspension of the application for action.