

## **Submission for EC Consultation on Customs Enforcement of Intellectual Property Rights**

### **INTELLECTUAL PROPERTY LAWYERS' ASSOCIATION**

#### **RESPONSE TO THE CONSULTATION PAPER ON EU LEGISLATION ON CUSTOMS ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS**

This response is made on behalf of the Intellectual Property Lawyers' Association ("IPLA"). The IPLA was formed in November 1982 to act as a centralised voice for those law firms in England and Wales with significant IP practices who wished to lobby for improvements to the law and practice of intellectual property law in the UK. Some sixty firms are members and their practices extend throughout England and Wales. Our members have very extensive experience in relation to all areas of IP infringement, including the continuing battle against counterfeit and pirated goods, and several have direct experience of litigation under the current legislative regime before the UK Courts and the Court of Justice. Accordingly, we consider that we are well placed to make constructive comments in relation to the issues raised in this Consultation.

#### **1. Situations in which customs authorities should be competent to take action**

We are strongly of the view that Customs should not be restricted to taking enforcement action only in situations where goods are declared to release for free circulation in the European Union or where there is evidence that those goods may be so released. Enforcement should be available in all cases in which goods are under customs supervision including exportation, transit, transshipment, temporary deposit, customs warehousing procedures, and placement in free zones or free warehouses.

This is particularly so in cases where the goods in question are counterfeit or pirated. As the Commission has itself rightly recognised, the international trade in such goods has serious and wide-ranging impact on jobs, health, safety and competitiveness. It is clearly in the interests of European business and consumers that the trade in such goods be curtailed regardless of whether there is an immediate apparent risk that any particular goods will find their way into free circulation in the EU. A key mechanism in ensuring this aim is the imposition of controls that permit the detention of goods in the process of transit or transshipment.

We do, however, acknowledge that European legislation in this area should not unduly hinder legitimate trade (not least in light of the Community's international obligations under Article 41(2) of TRIPS). However, that does not provide a valid reason to avoid legislation that prevents trade in goods that on any sensible view are not legitimate. We also recognise that the application of present Customs procedures in the case of medicines in transit through the EU has been a source of concern among some WTO member states. However, the approach we propose below is one that in principle should address those concerns.

The detention of goods in transit is not precluded by any constraint that any Regulation in this area should not affect the substantive IPR applicable in Member States. Customs rules that prevent the enforcement of IPRs in cases of goods in transit or transshipment are founded on a legal fiction that they do not enter the EU (when, of course, they are physically present). There is no good legal or policy reason for that legal fiction to prevail in cases where there is no obvious legitimate use of the products in question.

Therefore, in our view, goods subject to customs supervision should be subject to detention by Customs, regardless of the form that the customs supervision takes. The key questions are instead:

- (i) In what circumstances should goods that if released into free circulation in the EU would infringe EU intellectual property rights, nevertheless be considered legitimate and not subject to detention; and
- (ii) What are the practical mechanisms and rules that should apply in determining the question of legitimacy in such cases.

In our view Customs should, at a minimum, be able to detain goods which are in transit or transshipment through the EU where the goods were clearly infringing in the EU and in the stated or actual country of destination.

It may also be appropriate to provide for detention where the goods infringe IPRs in both the EU and the country of origin. However, given that the laws of some countries provide that manufacturing for export is not an act of infringement, such a provision may be of more limited practical use.

We recognise that in many cases Customs cannot be expected to be familiar with, or to have to enquire as to, the extent of intellectual property rights outside of the EU. However, the relevant legislation could provide (a) that the infringement of Community IPRs or the local IPRs of the relevant EU member state would ordinarily provide justification for detention; and (b) there would then be a complete defence to detention where it could be proved that the products did not infringe the relevant in the country of destination (and, possibly, that the products did not infringe in the country of origin).

Such a procedure would effectively transfer the burden of showing that the goods in transit might be legitimately used. Therefore, it may be appropriate for the legislation also to provide mechanisms that would prevent or dissuade IPR owners from abusing this procedure where it was clear that they knew or ought to have known that the goods did not infringe any relevant rights in the country of destination.

We accept that these proposals by themselves would not necessarily catch all dealings in counterfeit, pirated or other illegitimate products. In practice, those who deal in such goods may provide false origin and destination details and/or change the destination of goods in the course of transit. However, it would provide at least a useful minimum level of protection to rights holders.

## **2. Range of IPRs the Regulation should cover**

The Commission poses the question: What should be the range of IPR covered by the Regulation? In principle there is no reason why all IPRs should not be included within the scope of the Regulation. However, in the IPLA's view, this question is linked to the question of safeguards against abuse, and that the debate required is similar to that relating to the Criminal Enforcement Directive which has led to the exclusion of patents from the scope of the proposed Directive.

In our experience, the most common rights invoked under the Regulation are Trade Marks and Copyrights. These are relevant to the vast majority of cases of counterfeiting and pirating. We are aware of only a small number of cases where rights such as patents and plant variety rights have been invoked, albeit that we believe that a large number of pharmaceutical patents have been registered with customs.

The case in favour of including all IPRs is primarily that every tool which is potentially available to rights owners should be deployed in the fight against infringement of IPRs. One very important area (for reasons of public safety) is counterfeit drugs. There is now an active trade in drugs, including prescription drugs, ordered via the internet which potentially avoids the safeguards provided by national and EU Marketing Authorisations. In some cases it is possible to envisage drugs being imported into the EU in plain packaging, or possibly bearing a generic drug name in which no IPRs exist, which will be repackaged in the EU. In such cases, the only IPR which may exist may be patents. In such cases it would be unfortunate if a patent could not be used to enable seizure by customs.

Against that, however, one must recognise that most patent disputes are genuine commercial disputes between significant commercial concerns. The question of patent infringement is very often a complex matter; and in the field of medicines will require a sophisticated chemical analysis. The effect of seizure of goods is akin to the grant of an interim injunction, which is a remedy rarely available in patent actions in the EU. It is debateable, therefore, whether the ability to seize goods at customs is a legitimate tool which should be available to patentees in all cases. There is obvious scope for abuse, and without in any way suggesting that there has been abuse in any particular case, we understand that there has been criticism of cases in, at least, one country where goods have been detained for long periods of time where issues of infringement and validity have been far from clear. This leads IPLA to believe that inconsistencies in national procedures upon seizure should be harmonised.

The IPLA's members have divergent views on whether patents should continue to be included within the scope of the Regulation. If they do remain in, it is important that there are safeguards to avoid the potential problems identified in the preceding paragraph. The safeguards under Articles 13 and 14 of the current Regulation require that goods suspected of infringing a patent be released within 20 working days, unless the patentee has obtained precautionary measures within that time, subject to provision of security sufficient to protect the interests of the patentee if the patentee has filed an action on the merits. These safeguards appear to constitute an appropriate balance in general, provided that the security required covers all possible losses of the patentee. However, goods should not be released if there are believed to be issues of public health or safety involved (e.g. breach of medical, telecommunications, toy etc. regulations).

## **3. Possible Derogations for which Customs authorities will not be competent to take action**

### ***Should the derogation concerning small quantities of goods of a non-commercial nature contained in travellers' personal luggage be kept or should it be withdrawn?***

The existing derogation arguably sends out an inappropriate message to consumers ("it's ok to purchase counterfeits for your own use on trips abroad"). However, we are concerned that the removal of this derogation risks bringing the system into disrepute, as Customs ("the State") and IPR owners ("Big Business") could be perceived as interfering too much with consumers' personal choice.

On balance, the derogation should remain in its present form and should be consistently applied in each Member State. Further guidance is welcome to ensure that Customs are consistent in their interpretation of goods of a non-commercial nature (e.g. as to the number of goods above which the import would be commercial, such as 2 or more goods of the same description).

Efforts should continue to educate consumers of the real cost of purchasing counterfeits, in the European Union and elsewhere.

***Should the derogation concerning overruns be kept or should it be withdrawn?***

It is theoretically possible to distinguish between 'goods infringing an intellectual property right' produced by a third party (unrelated to the rights holder) and those produced by a licensee outside of the scope of an existing (or past) licence agreement. Both infringe the rights holder's intellectual property rights, but an additional contractual remedy is usually available for overruns (although sometimes a manufacturer may be deliberately making excess quantities and shipping them out of the "back door" and whether this is an "overrun" as opposed to a blatant infringement is far from clear).

In practice, it may be difficult for a rights holder to make a determination (as to whether a product is a counterfeit or an "overrun" or similar) on the status of a product on the basis of a sample inspection alone, where the suspect product has been produced in essentially the same conditions as a genuine product. However, where a rights holder is able to demonstrate, for example, that products detained bear its trade mark without its consent, then it should not be prevented from taking further action. We therefore consider that this derogation be withdrawn, or at least amended to enable a rights holder to act on the basis of the information disclosed in such cases to pursue a civil action to prevent the import and sale of such goods.

**Should the derogation concerning parallel trade be kept or should it be withdrawn?**

Increasingly, 'counterfeit' and 'pirated' goods are intentionally "mixed up" in the same channels as parallel trade (and indeed overruns). This complicates the issues and does make the job of Customs and IPR owners more difficult. On balance, we believe that the existing derogation should remain, but that it be amended to enable a rights holder to act on the basis of the information disclosed by Customs in such cases to pursue civil action to prevent the import and sale of such goods (as with the derogation concerning overruns).

**4. Simplified Procedure enabling the destruction of goods by Customs**

***Should the implementation of the simplified procedure as described in Article 11 of Council Regulation (EC) No 1383/2003 be kept as optional for Member States? Or should it be compulsory and directly applicable by all Member States? Or should it be deleted?***

We believe that the simplified procedure provides a simple and cost-effective enforcement mechanism against counterfeit and pirated goods. We consider that the simplified procedure should not only be maintained but, for consistency throughout the EU, should be made compulsory and directly applicable. Direct applicability would remove some of the minor differences between Member States' implementation (where they have chosen to do so) and would ensure that the same position applies throughout the EU.

Whilst in favour of the simplified procedure, we consider there is currently a small difficulty with its implementation, which we raise here for completeness.

Under Article 9.3, Customs should, if asked, inform the right holder of the names and addresses of **the consignee, the consignor, the declarant or the holder**. Experience suggests that the information Customs is most likely to be able to provide is in relation to **the consignee, the consignor and the declarant**.

Under Article 11, in order to take the benefit of the simplified procedure, the rights holder has to obtain the written agreement of **the declarant, the holder or the owner** of the goods to abandon the goods for destruction. Consent is deemed to have been given if none of them objects.

First, there is therefore something of an inconsistency between the parties for whom Customs will provide information (if they have it) and the parties who should be informed in order to benefit from the simplified procedure.

Second, experience suggests that the declarant is often the freight forwarder who will say it is not authorised to give consent. Whilst the consignee may also be the owner and the holder, this will not be clear from the information provided by Customs. Therefore, we recommend that the simplified procedure be amended such that consent (whether actual or deemed) to destruction should be obtained from **the consignee or the declarant** of the goods. In order for deemed consent to be available, notices should be sent to both the consignee and the declarant (if this information has been provided by Customs) at the address/es given.

Finally, it would be of assistance to rights holders if the Regulation were to contain the form of notice to be given. This notice, completed by the rights holder once the goods are determined to be counterfeit or pirated, could be sent to the consignee and the declarant (with a copy to the notifying Customs agency). Consignees/declarants could be asked to respond directly to Customs, with a copy to the rights holder (or its representative). Failure to respond would constitute deemed consent.

**5. Small Consignments**

***Should a new procedure be envisaged to deal with small consignments? What should be the concept of a small consignment?***

Rights holders have identified an increasing trend towards small consignments of counterfeit or pirated goods, usually entering the EU through the postal service or via a commercial courier company. These can occupy a disproportionate amount of time for both Customs and rights holders, particularly when considering the small value of some of the goods concerned (although sometimes the goods may be of significant value or potentially harmful, such as counterfeit medicines). However, failure to deal with small consignments (because of costs and/or time pressures) can lead Customs agencies to be less willing to detain further, similar consignments. Rights holders and Customs therefore continue to expend disproportionate resources policing these consignments.

We therefore welcome the discussion about a potential procedure for dealing with small consignments of counterfeit and pirated goods without the need for involvement of rights holders.

Whilst we consider that Customs should have a general discretion as to when to decide to adopt the procedure, it would be sensible to have some general guidelines applicable throughout the EU.

We consider that there should be several elements contained within any guidelines relating to "small consignment", for the protection of Customs, rights holders and consumers:

- (a) "Small" – we consider that any guidelines should encompass both value and number – for example, fewer than 5 items or items with a total value of less than €200. This would include, for example, a consignment of 5 counterfeit watches (which may have a value in excess of €200 at full, genuine, prices) as well as a consignment of 1000 stickers or other packaging elements which, on their own, would be valued at less than €200, but which, when later combined with other packaging elements, or the goods themselves, may have a significantly higher value. We consider that the use of "or" in the definition, rather than "and", creates the appropriate balance between consumers' rights and protecting rights holders. We do not have strong views on the actual numbers - in reality there is unlikely to be significant practical difference between 5, 10 or 20 items. The value, if included, should be monitored to ensure that consignors are not artificially inflating the declared value to €201 in order to avoid any small consignment procedure; and
- (b) "Consignment" – again, we consider that there should be two elements to any guidelines. First, a consignment, by its nature, is a single collection of items. We therefore consider that consignment should involve the notion of a single package. Second, we consider that a consignment should be limited to packages sent through postal or commercial courier services.

Taken together, these suggested guidelines should ensure an appropriate balance, particularly as it would exclude single items of large machinery or other single but valuable items.

With items sent through the postal service or by commercial courier, there will be a readily identifiable recipient at a readily identifiable address. A simple notification to that address to the effect that Customs have impounded suspect counterfeit goods should therefore be practicable and cost-effective, and, if the recipient does not respond, the goods may be destroyed. As with the simplified procedure, we recommend that the Regulation include a standard format notification to be used by Customs.

We also recommend that any small consignment procedure be mandatory for all Member States, and directly applicable.

We do not think it appropriate for the rights holder's indemnity to be called on or the rights holder to be asked to pay the costs of destruction in circumstances where it has not been consulted about the destruction. Some consideration may therefore be given to notifying the rights holder at the same time as the recipient of the goods is notified. At that stage, the rights holder can choose to do nothing (but its indemnity may be called on or it may be asked to pay the costs of destruction) or it can inspect the goods to satisfy itself that they are counterfeit/pirated. If the rights holder is notified, it will also be able to build up a picture of infringing conduct to assist it in anti-counterfeiting measures.

## **6. Costs of storage and destruction**

***What should be the scope of the provisions regarding costs in the IPR customs enforcement regulation? Should it refer to any cost or should it be limited to the costs incurred by customs authorities, leaving other costs to be borne in accordance with the common provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member state where action has been taken?***

At present, under Article 6 of the Regulation, the rights-holder has to agree to bear all costs incurred in keeping goods under customs control. In respect of any destruction under the simplified procedure of Article 11, the rights-holder must bear the expense and the responsibility for the destruction of the goods.

We do not believe there is any need for the provisions regarding costs in the IPR customs enforcement regulation to extend beyond the costs incurred by the Customs authorities.

However, it is not clear from these provisions whether the rights-holder is entitled to recover the costs incurred by the Customs authorities for which it is liable in civil or criminal proceedings. We believe that, at the very least, it should be explicitly stated that these costs can be recovered together with other costs in accordance

with the common provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member State where action has been taken, even if they had been incurred as a consequence of the simplified procedure.

We would also recommend that, in respect of these storage and destruction costs, the Customs authorities should be given the power to make a costs order themselves against the importer in favour of the rights-holder as part of the simplified procedure, provided that these costs would not be payable in the event that the goods were found not to infringe. Such costs order would be enforceable as a judgment debt on production of certification by Customs of the costs incurred. Assigning responsibility for the costs of destruction of infringing goods to the responsible party is not only fair but will serve to visit the infringer with the true costs of his conduct, and discourage future instances.

There ought also to be a published scale of costs of storage and destruction from the Customs authorities, so all parties know what they are up for.

***What should be the responsibility, regarding costs of storage and destruction, of each of the economic operators involved – voluntarily or involuntarily – in the international trade of IPR infringing goods? In addition to the right holders and the holder of the goods, there are several intermediaries involved, such as shippers, carriers, consignors, customs declarants and holders of customs warehouses.***

The liability of [non-infringing] intermediaries for any relief was introduced into the UK by Article 11 of the Enforcement Directive which provides:

*"Injunctions*

*Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. Member States shall also ensure that right holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC"*

In the UK the question of the whether this provision formed part of UK law was discussed in detail by Arnold J in **L'Oreal v eBay** [2009] EWHC 1094 (Ch). He found that it had not been brought into effect by legislation and did not have direct effect. However, he did find:

"454. Nevertheless, in the light of the general principles I have set out above, I consider that, if Article 11 requires that the grant of an injunction against an intermediary who is not an infringer, then that provides a sufficient reason for a court of equity to exercise its power to grant an injunction to protect an intellectual property which has been infringed. In saying this, I am not treating Article 11 as having direct effect; but as providing a principled basis for the exercise of an existing jurisdiction in a new way."

Under English law, any economic operators involved in the international trade of IPR-infringing goods who is found to be a joint-tortfeasor would be liable, jointly and severally, with the other tortfeasors for the costs. Accordingly, as long as it is clear that the primary infringers are liable for the costs of storage and destruction, so would any joint-tortfeasor.

We consider that the issue of whether non-infringing intermediaries, who might not in all circumstances be found to be joint tortfeasors under English law should be held liable in for the costs of storage and warehousing is a difficult one.

We are in favour of suitable injunctions being able to be granted against such intermediaries but it may be harsh to impose financial penalties on such intermediaries who may have been misled by their customers.

We do note, however, that such intermediaries will be able to protect themselves contractually by operating on terms that they will not be involved by their customers in the international trade of IPR-infringing goods and obtaining indemnities (and insurance) from their customers against any such costs.

We would favour greater responsibilities being placed on such intermediaries to obtain information from their customers about the nature of the goods being imported such as, for example, any trade marks or brands applied to the goods, and that, where goods are deemed to be counterfeit, the intermediaries be obliged to provide complete information and full disclosure to Customs about the customer, the place of manufacture of the goods, shipping details etc. and that Customs be given greater freedom to pass this information to right holders without the parties being able to hide behind confidentiality or data protection issues.

There is one further issue we would raise. Such intermediaries, who may be involved (even if innocently) in the importation of very substantial quantities of counterfeit goods and therefore assisting in money laundering, often on the part of organised crime, should have the Money Laundering Regulations applied to them, supervised by the Customs authorities. If this is done, these intermediaries will be required to make proper ID checks and report suspicious activity to HMRC. Indeed this is a classic case for the rigorous application of the

Money Laundering laws. These are applied across the board in areas such as the legal profession where money laundering occurs in very large part in specific areas. There can be no dispute that there are very large numbers of counterfeit goods passing daily through the hands of intermediaries, and that without their involvement imports of counterfeit goods would be significantly curtailed. Concentrating on this area of commerce, where there is a certainty of innocent parties being used to facilitate money laundering, would be a very effective use of resources.

***Should these provisions be set out without prejudice of the right of the person liable for costs to seek redress through the judicial system from any other party involved according to common provisions in force?***

As mentioned above, we consider that it should be made expressly clear that the rights-holder is entitled to recover the costs incurred by the customs authorities for which it is liable in civil or criminal proceedings together with other costs in accordance with the common provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member state where action has been taken.

**Other comments – ACTA draft of April 2010**

The appropriate scope for border controls remains an issue in flux and there are several areas of legitimate debate, as can be seen from this and no doubt other responses to the consultation. In these circumstances, the EU should be very careful not to bind itself under an international treaty to applying a regime which it may decide in the future is not in the best interest of European businesses and citizens but which cannot be changed without amendment of the international treaty. Therefore, the mandatory requirements of ACTA should be limited to counterfeits and pirated goods, with extensions of border controls to other IP infringements remaining optional and thus a matter for determination by the EU over time.

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