



JONES DAY  
**COMMENTARY**

## **BORDER CONTROL MEASURES IN THE EUROPEAN UNION: A STRONG WEAPON AGAINST PRODUCT PIRACY AND PATENT INFRINGEMENT**

Product piracy has for many years been a threat for the holders of intellectual property (“IP”) rights throughout the world. In Europe, the EU first sought to use customs authorities to help combat product piracy back in 1986 when it introduced a regulation to allow seizure of pirated goods on import into the EU. Although originally limited to combating product piracy, the legislation has been revised on three occasions and now also covers goods infringing patents, whether pirated or not. This provides a powerful weapon for IP rights’ owners who are facing either pirated goods or goods infringing their patents, and one which, particularly for patent owners, has remained, surprisingly, relatively unknown and unused.

### **PRODUCT PIRACY: AN IMPORTANT ISSUE**

Product piracy relates to counterfeit goods, pirated goods and in a more general sense copycat products. The marketing of those goods creates

considerable damage not only to right holders, but also to law-abiding manufacturers and traders—the economy as a whole suffers by lost taxes or employment, for example. Further, those goods in some cases can endanger the health and safety of the consumers (if, for example, pharmaceutical products do not contain their relevant effective ingredients, or if spare parts for automobiles or aircrafts do not work properly).

Counterfeiters and pirates have an unfair advantage over the manufacturers and distributors of the goods they copy because they can avoid much of the costs of research, product development and advertising.

The problem of product piracy is a very significant one. Whilst it is impossible to tell the size of the market in Europe in product piracy, the scale of the problem is evident from the amount of goods that customs seize. Statistics show that EU customs offices in 2008 reported they had detained more than 49,000 cases of goods on suspicion of

infringing IP rights, totalling 178 million articles, of which about 20 million were potentially dangerous to the health and safety of consumers.<sup>1</sup>

It is unsurprising therefore that combating product piracy is a high ranking political aim in the EU, and indeed the EU is currently conducting a consultation on the existing law with a view to updating it again.

## HOW PRODUCT PIRACY HAPPENS

The influx of pirated goods into economic circulation into the EU follows two main routes:

- Professional dealers in counterfeit goods order high volumes of pirated goods and try to place them into usual channels of commerce, such as retail shops.
- End-consumers are attracted by the low prices offered on the internet at traders' sites (such as [www.alibaba.com](http://www.alibaba.com), [www.dhgate.com](http://www.dhgate.com), etc.) and order goods in limited quantities either for their own use or to make some money by re-selling these goods at, for example, online auctions.

Records from seizures show that most of the pirated goods originate from China. Other source countries include Thailand, Hong Kong, India, Turkey, and Vietnam and even countries with highly developed IP protection, such as the USA.

## THE EXISTING LEGAL FRAMEWORK

Today, the primary legislation is Council Regulation (EC) No. 1383/2003 of July 22, 2003, titled "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" ("CR (EC) No. 1383/2003"),<sup>2</sup> which provides for uniform measures throughout the EU, handled by national customs authorities. Besides those pan-EU provisions, national IP law in any of the 27 Member States of the EU may provide for additional measures, although most countries rely on just CR (EC) No. 1383/2003.

CR (EC) No. 1383/2003 is effective in cases where counterfeit goods originate in or come from countries outside the EU. When such goods enter the EU, they are subject to a customs check and are subject to the measures laid out in the regulation. Action can also be taken against infringing goods in the process of being exported, re-exported or leaving the EU (Art. 1 (1) CR (EC) No. 1383/2003).

The enforcement is handled by the national customs offices at the place of first entry of the goods into the EU.

## SCOPE OF AN APPLICATION FOR BORDER CONTROL MEASURES

Customs Offices may take action under two premises:

- The standard case is where a holder of IP rights has lodged an application with a Customs Office registering his IP right(s) and the customs detect goods that are covered by the application.
- Even if such an application has not been lodged or approved, customs offices may detain goods or suspend their release for a period of three working days to enable the right holder to submit an application for customs actions (Art. 4 (1) CR (EC) No. 1383/2003); this is, however, the exceptional route so that right holders are advised to file applications and should not wait for customs authorities to take action on their own.

An application for customs action may relate to the following IP rights:

- Registered trademarks
- Design patents
- Copyrights or related rights
- Patents and supplementary protection certificates and
- Plant variety rights, designations of origin and geographical indications or designations protected either by national law or by EU law (Art. 2 (1) CR (EC) No. 1383/2003).

<sup>1</sup> Cf. Press Release IP/09/1106 of the European Commission dated July 9, 2009.

<sup>2</sup> This Council Regulation replaces its predecessor Council Regulation (EC) No. 3295/94 of December 22, 1994. Implementing provisions are laid down in Council Regulation (EC) No. 1891/2004 of October 21, 2004.

Further types of IP rights, such as Utility Models as protected in France and Germany, do not qualify for an application under the EU Regulation. However, national law may provide for a national border seizure system also incorporating such national IP rights.<sup>3</sup>

In the case of Community trademarks, Community design rights and other Community-wide rights (but not including European patents, which are merely a bundle of national rights), the applicant for customs action may apply for EU-wide border control (rather than on a country-by-country basis); it is necessary for the applicant to file an application in only one EU Member State and at the same time to request action in as many (or all) other Member States he wishes to cover. When granted in the country where the application has been lodged, the granting decision will be communicated to the designated other Member States, and the applicant need no longer file further applications but of course must attend to any formalities required by any of the other designated Member States. (Art. 5 (4) and 8 (2) CR (EC) No. 1383/2003).

The applicant for border control measures cannot prevent parallel imports. Whenever goods have been manufactured with the consent of the applicant, or have been put into commerce with his consent, anywhere in the world, the EU-wide border control system no longer applies (Art. 3 (1) CR (EC) No. 1383/2003). However, national law of EU Member States may provide for a system of additional measures.<sup>4</sup> Any actions available under national law can easily be combined with actions under the EU-wide border control system.

It is important to note that not all acts of infringement qualify for the border control measures. This is because the legislation, at least initially, was intended to address product piracy and not all IP infringement. For trademarks, the term “counterfeit” in CR (EC) No. 1383/2003 is limited to the use of designations that cannot be distinguished in their essential aspects from the registered trademark (Art. 2 (1) (a)). This is considerably narrower than the likelihood of confusion test used for trademark infringement. Regarding design patents and copyright, the offending product must qualify as a “copy” of the protected item (Art. 2 (1) (b)). However,

when the legislation was amended to include patents, no equivalent limitations were included, and any goods suspected of patent infringement are subject to the border control measures. (Art. 2 (1) (c)).

There are no official fees for filing an application for border control measures under CR (EC) No. 1383/2003. The applicant has to provide at least brief information on how the goods can be recognised by customs officials (Art. 5 (4) CR (EC) No. 1383/2003); however, in order to maximise the chances of finding the goods, the applicant should provide as much information as he has on the suspected channels of illegal trade, including, for example, details on how to spot counterfeits or likely infringing parties from past experience, or information on the channels of trade used for the original goods so to distinguish them from illegal trade. The right holder can also provide further information at any time after grant of the request to make the measures as effective as possible.

Finally, the right holder has to file a declaration (further to Art. 6 CR (EC) No. 1383/2003) accepting liability for third party claims if any action performed by customs authorities upon his request is determined to be unfounded in the end. In particular, if it is finally decided that the alleged illegal act does not amount to an infringement and the detention of the goods causes loss to the importer, the right holder would be liable. Also, the right holder has to bear any costs incurred by customs in detaining the goods and, accordingly, has to accept responsibility for this in his declaration.

Some national customs offices allow the filing of an application electronically. In the case of repeat requests after the standard period of one year, the applicant may be able to simply refer to his earlier statements and documents so that the renewal procedure is straightforward.

## HOW THE SYSTEM WORKS

The information filed by the applicant in his request for border seizure measures will be communicated from the national customs head office responsible for decisions regarding the general request to all customs offices across

<sup>3</sup> In Germany, for example, the national border control system also extends to German Utility Models, section 25a Utility Model Act.

<sup>4</sup> In Germany, for example, several Acts protecting IP rights allow for a national border control system covering IP rights protected in Germany and allowing also measures in the case of parallel imports (such as sections 146 ss. Trademark Act or sections 142a s. Patent Act); the main difference to the EU-right request is that the right holder has to post a bond covering eventual liabilities in case of customs seizure which prove unlawful in the end.

that country so that they have at hand all the information on the protected IP rights. If goods are being cleared at customs and if the customs officials suspect that the goods may infringe protected IP rights, they have the means to stop further shipment of the goods. The term “border seizure” encompasses various possibilities of customs action, namely suspending the release of goods, detaining them or seizing them. As well as counterfeit goods themselves, customs may also seize moulds or matrixes designed or adapted for the manufacture of such goods (Art. 2 (3) CR (EC) No. 1383/2003).

The customs office does not itself examine whether the goods do in fact infringe the IP right but rather notifies the applicant to allow him to decide whether to take further action.

Customs offices will take action irrespective of the number of goods or their commercial value. This means that even shipments of small numbers may lead to customs action. This represents an active deterrent because often professional dealers serve individual end-consumers within the EU with goods for their personal use; the individual shipment relates to small numbers but the total of all those shipments may represent a considerable flow of goods. The only exception to this rule relates to the clearance of goods carried in travellers’ personal baggage. When imported within the limits of the duty-free allowance,<sup>5</sup> no action will be taken unless customs suspect that the goods are being brought in commercially.

The applicant has a period of 10 working days to take further action, with a possible extension of another 10 days.<sup>6</sup>

The applicant, if he requests it, will be provided with information on the potential infringing party or parties and the nature and quantity of goods. Usually, the applicant will be provided with a sample product for further inspection to be returned afterwards.

The applicant now has to decide whether he wishes to take the matter further:

- If the right holder comes to the conclusion that the goods are original ones, including parallel imports, or if he is not interested in prosecuting the case further,<sup>7</sup> he will inform customs that no further action is required. The goods will immediately be released.
- If the right holder, upon examining the goods, concludes that they are covered by the legislation, he will inform customs accordingly and he will request further customs action. There are two different ways in which the matter will be taken further:
  - (i) The standard way is that the right holder within 10 days (with one extension possible) has to start legal proceedings for infringement; otherwise, the goods will be released. (Depending on the legal framework in the respective Member Country, this could be civil proceedings for the infringement of the IP right or possibly proceedings under criminal or administrative law.) However, legal proceedings need not be started if the party responsible for the shipment of the goods agrees to surrender them voluntarily and to revoke the clearance process at customs. As there is only very limited time for this, if the right holder believes that the person responsible for the goods might agree to this, then he will need to take immediate action to obtain the necessary declaration for surrendering the goods from the relevant party and to file it in time with the customs office. However, as the party involved in clearing the goods may wish to avoid costly legal action that would otherwise follow, particularly with pirated goods, very often the person responsible for the goods will agree to their surrender.
  - (ii) The right holder might be able to benefit from the so-called “simplified procedure” under Art. 11 (1) CR (EU) No. 1383/2003 provided that it has been implemented under the local national law. If the right

<sup>5</sup> The duty-free allowance is presently set at EUR 430 for air or sea travellers and EUR 300 in all other circumstances; for passengers under the age of 15 Member States can reduce it to EUR 150 only (Art 3 (2) CR (EC) No. 1383/2003 in conjunction with Art. 7 Council Directive 2007/74/EC of December 20, 2007 and national law).

<sup>6</sup> In case of perishable goods, the term is only three working days and cannot be extended (Art. 13 (2) CR (EC) No. 1383/2003).

<sup>7</sup> Although some applicants find it convenient to only prosecute cases with a high number of infringing goods, we recommend treating each case as serious and taking further action. The main reason is that if an IP rights holder is selective about taking further action, the customs authority may not be so thorough in detaining goods in the future. Some applicants quite rightfully have adopted a “zero tolerance policy” which means that each individual case will be prosecuted however minimal the number of goods at issue.

holder applies for the simplified procedure, the other party will be notified. The onus is then shifted to the other party to specifically object to the destruction of goods. If there is no objection, the other party will be presumed to agree to the destruction of the goods. In practice, very often there is no response from the other party so that the legal presumption works and the right holder obtains the legal means for final destruction of counterfeit goods in this expedited way. Only in the case of a clear objection from the other party will the right holder have to initiate legal proceedings as described above.

- If the other party opposes the seizure of the goods and if the right holder has satisfied customs that he has initiated the required legal action, the relevant goods will be detained until there is a final decision from the legal action. If the border seizure request is based on patents, design patents and similar rights, the other party can choose (further to Art. 14 CR (EC) No. 1383/2003) to have the goods released if he posts a bond sufficient to protect the interests of the right holder.

Whenever the right holder succeeds in the litigation and therefore has the right to have the counterfeit goods destroyed, he will liaise with customs to bring this about. The costs of the destruction will have to be borne by the right holder, but of course he can try to make the other party reimburse these costs to him.

The right holder can use the information on the importer, the exporter or other parties involved with the shipment of counterfeit goods received as part of the customs action to support proceedings against these parties for IP infringement. This could lead to an injunction governing future conduct, complete information on the channels of trade, the turnovers and profits gained, as well as damage claims.

## SUMMARY AND OUTLOOK

Border control measures in the EU can be a very effective means to assist owners of IP rights in counteracting product piracy and in all cases of patent infringement. Although not all IP rights are suitable for registering with customs, there are many cases, especially where goods are likely to be counterfeited, where it is helpful to have a portfolio of rights registered with customs in order to benefit from the experience and vigilance of customs officials when clearing goods at the borders. As there is no cost to implement the measures, there is little to lose by doing so.

Practical experience also shows that the handling of cases with suspected goods found at EU borders is generally swift and effective, particularly when the simplified procedure described above is in place. Customs is always willing to further develop and improve the border control system so that the outlook for IP owners in combating counterfeits in cross-border situations is bright. Meanwhile, the Commission is currently running a consultation on the legislation with a view to updating the legislation. IP rights holders and other interested parties can make submissions up until 25 May 2010. A link to the consultation can be found at: [http://ec.europa.eu/taxation\\_customs/common/consultations/customs/ipr\\_2010\\_03\\_en.htm](http://ec.europa.eu/taxation_customs/common/consultations/customs/ipr_2010_03_en.htm)

## LAWYER CONTACTS

For further information, please contact your principal Firm representative or one of the lawyers listed below. General email messages may be sent using our "Contact Us" form, which can be found at [www.jonesday.com](http://www.jonesday.com).

### **Andreas Ebert-Weidenfeller**

Frankfurt  
+49.69.9726.3983  
[aebert@jonesday.com](mailto:aebert@jonesday.com)

### **Alastair J. McCulloch**

London  
+44.20.7039.5219  
[amcculloch@jonesday.com](mailto:amcculloch@jonesday.com)

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