The temporary detention of goods ("counterfeit goods" or "pirated goods")

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On 1st December 2011 the European Court of Justice ("ECJ") handed down an important decision pertaining to the entry into the European Community and the export and re-export from the Community of goods infringing certain intellectual property rights ("IP-rights"). The judgment of the ECJ was in joint cases (Philips Electronics N.V. v Lucheng Meijing Industrial Company Ltd et al and Nokia Corporation v Her Majesty's Commissioners of Revenue and Customs), where references for a preliminary ruling were made from the Court of First Instance at Antwerp (Belgium) and from the Court of Appeal (England and Wales) (civil division). These references have been made concerning the entry into the customs territory of the European Union of goods allegedly infringing designs and copyright held by Philips and, second, by Nokia concerning the entry into that customs territory of goods allegedly infringing a trademark of which Nokia is the proprietor. The main action in the Antwerp case was governed by Regulation No 3295/94, as amended by Regulation No 241/1999, which was repealed with effect from 1st July 2004 by Regulation No. 1383/2003. The latter Regulation prevailed at the time at which the events occurred in the English case.

Legal context

The second recital in the preamble to Regulation No 1383/2003 stated:

"… the marketing of counterfeit goods and pirated goods causes considerable injury to law-abiding manufacturers and traders and to holders of the copyright or neighbouring rights and misleads consumers; … such goods should as far as possible be prevented from being placed on the market and measures should be adopted to that end to deal effectively with this unlawful activity without impeding the freedom of legitimate trade; …"

Recitals 2 and 3 in the preamble to Regulation No 1383/2003 are worded as follows:

"(2) The marketing of … goods infringing intellectual property rights does considerable damage to … right-holders, as well as deceiving and in some cases endangering the health and safety of consumers. Such goods should, in so far as is possible, be kept off the market and measures adopted … without impeding the freedom of legitimate trade …"

"(3) In cases where counterfeit goods, pirated goods and, more generally, goods infringing an intellectual property right originate in or come from third countries, their introduction into the Community customs territory, including their transhipment, release for free circulation in the Community, placing under a suspensive procedure and placing in a free zone or warehouse, should be
prohibited and a procedure set up to enable the customs authorities to enforce this prohibition as effectively as possible.”

Article 1 of Regulation No 1383/2003 states:

“1. This Regulation sets out the conditions for action by the customs authorities when goods are suspected of infringing an intellectual property right in the following situations:
(a) when they are entered for release for free circulation, export or re-export …
(b) when they are found during checks on goods entering or leaving the Community customs territory in accordance with Articles 37 and 183 of [the Customs Code], placed under a suspensive procedure within the meaning of Article 84(1)(a) of that [Code], in the process of being re-exported subject to notification … or placed in a free zone or free warehouse …
2. This Regulation also fixes the measures to be taken by the competent authorities when the goods referred to in paragraph 1 are found to infringe intellectual property rights.”

Article 1(1 of Regulation No 3295/94, as amended by Regulation No 241/1999 (“Regulation No 3295/94”), which is applicable to the main action in the Antwerp case, was worded in terms analogous to those of Article 1(1) of Regulation 1383/2003.

Under Article 2(1) of Regulation No 1383/2003, “goods infringing an intellectual property right” means:

“(a) “counterfeit goods”, namely:
(i) goods … bearing without authorisation a trademark identical to the trademark validly registered in respect of the same type of goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the trademark-holder’s rights under Community law, as provided for by Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trademark [(OJ 1994 L 11, p.1)] or the law of the Member State in which the application for action by the customs authorities is made;
…
(b) “pirated goods”, namely goods which are or contain copies made without the consent of the holder of a copyright or related right or design right … in cases where the making of those copies would constitute an infringement of that right under Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs [(OJ 2002 L3, p.1)] or the law of the Member State in which the application for customs action is made;
(c) goods which, in the Member State in which the application for customs action is made, infringe:
(i) a patent under that member State’s law;
(ii) a supplementary protection certificate …
(iii) a national plant variety right …
(iv) designations of origin or geographical indications …
(v) geographical designations …”

The disputes in the main proceedings and the questions referred for a preliminary ruling

The Philips case

On 7 November 2002, in the port of Antwerp (Belgium), the Belgian customs authorities inspected a cargo of electric shavers from China resembling designs of shavers developed by Philips. Since those designs were protected by registrations granting exclusive rights to Philips in a number of States, including
the Kingdom of Belgium, the Belgian customs authorities suspected that the
goods inspected constituted pirated goods. Accordingly, they suspended
release of the goods within the meaning of Article 4 of Regulation No 3295/94.

On 12 November 2002, in accordance with Article 3 of that Regulation, Philips
lodged an application for action.

Following that application, which was granted on 13 November 2002, the
Belgian customs authorities sent certain information to Philips, such as a
photograph of the shavers and the identity of the undertakings involved in their
manufacture and marketing, namely Lucheng, the manufacturer, Far East
Sourcing, the shipper, and Röhlig, the forwarding agent.

On 9 December 2002, those authorities detained the goods within the meaning
of Article 6(1) of Regulation No 3295/94.

On 11 December 2002, Philips brought an action against Lucheng et al before
the Court of First Instance in Antwerp seeking in particular a ruling that those
undertakings had infringed the exclusive right conferred by the designs for
Philips’ shavers and copyrights held by it. Philips also seeks an order, first, that
those undertakings pay it damages and, second, that the detained goods be
destroyed.

It has been established before the Court of First Instance in Antwerp that the
goods were covered initially by a summary declaration of entry giving them the
status of goods in temporary storage and, on 29 January 2003, by a customs
declaration made by Röhlig by which, in the absence of certainty as to the
destination of those goods, it requested that they be placed under the customs
warehousing procedure.

Philips submits before that court that, with a view to establishing the existence
of an infringement of the intellectual property rights relied on, it is appropriate to
proceed on the basis of the fiction that goods such as those at issue, being held
in a customs warehouse in the territory of the Kingdom of Belgium and detained
there by the Belgian customs authorities, are deemed to have been
manufactured in that Member State. In support of that argument, Philips relies
on Article 6(2)(b) of Regulation No 3295/94.

On the other hand, Far East Sourcing, the only defendant to appear before the
Court of First Instance in Antwerp, claims before that court that goods cannot
be detained and subsequently classified as goods infringing an intellectual
property right in the absence of any evidence that they will be put on sale in the
European Union.

It is in those circumstances that the Court of First Instance in Antwerp decided
to stay the proceedings and to refer the following question to the ECJ for a
preliminary ruling:

"Does Article 6(2)(b) of [Regulation No 3295/94] constitute a uniform rule of
Community law which must be taken into account by the court of the Member
State which … has been approached by the holder of an intellectual property
right, and does that rule imply that, in making its decision, the court may not
take into account the temporary storage status/transit status and must apply the
fiction that the goods were manufactured in that same Member State, and must
then decide, by applying the law of that Member State, whether those goods
infringe the intellectual property right in question?"

The Nokia case

In July 2008, Majesty’s Commissioners of Revenue and Customs ("HMRC")
inspected at London Heathrow Airport (United Kingdom) a consignment of
mobile telephones and mobile telephone accessories which had come from Hong Kong (China) and was destined for Colombia. Those goods bore a sign identical to a Community trademark of which Nokia is the proprietor.

Suspecting that the goods were fake, on 30 July 2008 HMRC sent Nokia samples of those goods. After inspecting the samples, Nokia notified HMRC that the goods were indeed fake and asked whether HMRC would be prepared to seize the consignment pursuant to Regulation No 1383/2003.

On 6 August 2008, HMRC replied to Nokia, stating that, having regard to the fact that the consignment was destined for Colombia and in the absence of evidence that the goods would be diverted onto the European Union market, it could not be concluded that they were "counterfeit goods" within the meaning of Article 2(1)(a)(i) of Regulation No 1383/2003. The consignment could therefore not, in the view of HMRC, be detained.

On 20 August 2008, Nokia made a request as provided for in Article 9(3) of Regulation No 1383/2003, asking for the names and addresses of the consignor and the consignee together with all the documents relating to the goods at issue. HMRC sent the information which it held, but after examining it, Nokia was unable to identify the consignor or the consignee of the goods and concluded that they had both taken steps to disguise their identity.

On 24 September 2008, Nokia sent a letter before action to HMRC putting it on notice of Nokia's intention to file an application for judicial review of the decision not to seize the consignment. On 10 October 2008, HMRC responded that, in accordance with its policy introduced following the judgment in Case C-281/05 Montex Holdings [2006] ECR I-10881, goods suspected of infringing intellectual property rights were not to be detained in cases such as the present one, in absence of evidence showing that diversion of the goods onto the European Union market was likely.

On 31 October 2008, Nokia brought an action against HMRC before the High Court of Justice of England and Wales, Chancery Division, which was dismissed by judgment of 29 July 2009. Nokia appealed to the referring court against that judgment.

The referring court found, firstly, that the telephones in question were fake goods under the mark of which Nokia is the proprietor and, secondly, that there was no evidence to suggest that those goods would be put on sale in the European Union. having regard to the action brought, in similar circumstances, by Philips before the Court of First Instance in Antwerp and to the differences in interpretation in the case-law of the Member States, the Court of Appeal (England and Wales) (Civil Division) decided to stay the proceedings and to refer the following question to the ECJ for a preliminary ruling:

"Are non-Community goods bearing a Community trade mark which are subject to customs supervision in a Member State and in transit from a non-member State to another non-member State capable of constituting "counterfeit goods" within the meaning of Article 2(l)(a) of Regulation [No 1383/2003] if there is no evidence to suggest that those goods will be put on the market in the [European Community], either in conformity with a customs procedure or by means of an illicit diversion?"

By order of the President of the First Chamber of 11 January 2011, Cases C-446/09 and C-495/09 were joined for the purposes of the Opinion and the judgment.

**Ruling by the ECJ:**
"Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures concerning the entry into the Community and the export and re-export from the Community of goods infringing certain intellectual property rights, as amended by Council regulation (EC) No 241/1999 of 25 January 1999, and 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 must be interpreted as meaning that:

- goods coming from a non-member State which are imitations of goods protected in the European Union by copyright, a related right or a design cannot be classified as 'counterfeit goods' or 'pirated goods' within the meaning of those regulations merely on the basis of the fact that they are brought into the customs territory of the European Union under a suspensive procedure;

- those goods may, on the other hand, infringe the right in question and therefore be classified as 'counterfeit goods' or 'pirate goods' where it is proven that they are intended to be put on sale in the European Union, such proof being provided, inter alia, where it turns that the goods have been sold to a customer in the European Union or offered for sale or advertised to consumers in the European Union, or where it is apparent from documents or correspondence concerning the goods that their diversion to the European Union consumers is envisaged;

- in order that the authority competent to take a substantive decision may profitably examine whether such proof and the other elements constituting an infringement of the intellectual property right relied upon exist, the customs authority to which an application for action is made must, as soon as there are indications before it giving grounds for suspecting that such an infringement exists, suspend the release of or detain those goods; and

- those indications may include, inter alia, the fact that the destination of the goods is not declared whereas the suspensive procedure requested requires such a declaration, the lack of precise or reliable information as to the identity or address of the manufacturer or consignor of the goods, a lack of cooperation with the customs authorities or the discovery of documents or correspondence concerning the goods in question suggesting that there is liable to be a diversion of those goods to European Union consumers."

Comments:

This Ruling of the ECJ is intended to give guidance to border enforcement measures of EU customs to protect EU consumers and those entitled to IP-rights against the international trafficking in counterfeit goods. After the Montex/Diesel decision of the ECJ (9 November 2006, C-281/05) there was a big demand for clarification regarding the question whether the party entitled to IP-rights could successfully oppose entry of counterfeit goods into the EU when the entry in the Community was for transit purposes only. In the Montex/Diesel case the ECJ has held that a trademark proprietor can prohibit the transit through a Member State in which that mark is protected of goods bearing the trademark and placed under the external transit procedure having another Member State as their destination where the mark is not protected, 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 there being put on the market in the Member State of Transit.

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