

Grey and counterfeit goods in transit: trademark law in no-man's land

Trademark owners often try to stop grey-market and counterfeit goods while in external transit through an EU member state. However, ECJ rulings are unclear as to the extent to which this is possible

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Parallel traders purchase trademarked goods outside Europe and import them into the European Community, where higher prices apply. These grey-market goods put pressure on the trademark owner's profit margins, as they are sold at below market price. The profits from parallel imports become even more tempting in difficult economic times. Likewise, fake and often inferior products can seriously damage the reputation of a brand. On numerous occasions trademark owners have tried to stop such goods while in external transit through an EU member state. However, European Court of Justice (ECJ) rulings on external transit have left a question mark over the extent to which trademark holders may detain such goods. This article examines the ECJ case law and takes a closer look at some of the key issues in the transit debate.

Legal framework

The Community Customs Code (as established by Regulation (EC) 2913/92) and the Anti-piracy Regulation (Regulation (EC) 1383/2003) constitute the most relevant Community legislation on goods in external transit.

The Community Customs Code requires that non-Community goods presented to Customs be assigned a customs-approved treatment or use (ie, that they be subject to a customs procedure such as external

transit or customs warehousing). Goods intended to be subject to such procedures must be covered by a customs declaration.

The external transit procedure applies to goods originating from outside the European Community that are not in free circulation in the Community. Customs warehousing, on the other hand, enables importers to store goods whose final destination is unknown at the time of their physical entry into the Community. The goods may be re-exported, in which case no import duties are due, or released for free circulation subject to payment of import duties. In both cases, the goods are subject to customs supervision from their physical entry into the Community until they are released or leave the customs territory.

The Anti-piracy Regulation provides remedies for IP rights owners seeking to prevent the introduction into the Community of "counterfeit goods, pirated goods and all goods infringing certain intellectual property rights". However, it does not apply to parallel imports.

In order for the Anti-piracy Regulation to apply, two conditions must be met. Firstly, the goods must be subject to one of the customs procedures listed in Article 1. Secondly, the goods must infringe IP rights. If these conditions are met, the goods will not be released for free circulation or export. Instead, Customs may destroy the goods or take appropriate measures to remove the economic gains from the transaction.

ECJ case law

On four occasions, the ECJ has ruled on the external transit of goods under the Community customs regime.

External transit of counterfeit goods

Polo Lauren (C-383/98, *Polo Lauren Company*) concerned a batch of fake Polo t-

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shirts that originated from Indonesia and were destined for a non-member state. The goods passed through Austria, where they were temporarily detained by the customs authorities at the request of the trademark owner. The ECJ ruled that the Anti-piracy Regulation applied. In response to the argument that goods in external transit do not affect the internal market, the ECJ held that “there is a risk that counterfeit goods placed under the external transit procedure may be fraudulently brought onto the Community market”.

In *Rolex* (C-60/02), the ECJ reiterated that the Anti-piracy Regulation applies in a situation where goods are being held under an external transit procedure.

Transit of genuine, parallel-traded goods
In *Class International* (C-405/03), a container with original toothpaste products bearing the AQUAFRESH trademark was detained by the Dutch customs authorities. At the time the goods arrived in the Netherlands, their final destination had not yet been specified.

The trademark owner argued that the import of the goods into the European Union amounted to trademark infringement which it was entitled to oppose. However, the ECJ ruled otherwise. It concurred with the advocate general, who opined that the mere physical entry of goods into the European Union does not necessarily amount to actionable trademark use. To oppose the introduction of goods subject to the external transit or customs warehousing procedure, the trademark owner must prove that this introduction necessarily entails that the goods will be put on the Community market.

The trademark owner relied on *Polo Lauren*, in which the ECJ acknowledged

the risk that goods in external transit may be fraudulently released onto the Community market. However, the ECJ held that this argument was not conclusive for the questions raised in *Class International*. In that regard, the advocate general had also opined that the ECJ had made that statement in a very different context. The *Class International* judgment thus effectively precludes trademark owners from preventing the circulation of genuine products that are “passing through” the European Community via the external transit and customs warehousing procedures, except where they can establish that the goods will necessarily be released for free circulation on the internal market.

Transit of goods that can be marketed freely in the country of destination

A more recent decision brought no relief for trademark owners. In *Montex* (C-281/05), jeans bearing the DIESEL sign were subject to an external transit customs procedure in Germany. The jeans were stitched together outside the European Union and transported by lorry through Germany. The final destination of the goods was Dublin, Ireland, where Diesel SpA could not invoke trademark rights to oppose the placing of the goods on the market.

In line with its ruling in *Class International*, the ECJ held that under Articles 5(1) and (3) of Directive 89/104/EEC, a trademark owner can prohibit the transfer of trademarked goods through a member state only where it can establish that the goods will be subject to an act by a third party during the external transit procedure which necessarily entails their being put on the market in the transit state. In other words, Diesel SpA’s trademark rights in Germany were

irrelevant for as long as it could not be evidenced that the goods would be released for free circulation in the German territory.

The ECJ continued by stating that it is irrelevant whether the goods originated from an associated state or from a third state, and whether they were lawfully manufactured in the country of origin. Regrettably, the ECJ did not follow the opinion of the European Commission, which took the view that illicit manufacture in the country of origin should allow the trademark owner to oppose any form of transit of those goods.

Some unsettled questions

The production fiction and counterfeit goods in external transit

The *Montex* decision raised serious concerns among trademark owners in the European Community. At first sight, it seems that the ECJ has opened Europe's doors to counterfeit products. Furthermore, the decision has merely reignited the doctrinal debate on transit, rather than settling it. In this respect, many authors question why the ECJ did not apply the theory of "production fiction" enshrined in Recital 8 of the Anti-piracy Regulation. This theory holds that goods originating from a third country should be assessed as if they were manufactured in the country where the goods are in transit. If the goods would be found to infringe IP rights in the jurisdiction where they are seized, their transit can be prohibited.

This omission may be explained by the fact that the national court which referred the *Montex* case did not submit questions in relation to the production fiction, but instead confined its questions to the interpretation of Directive 89/104/EEC. If this is indeed the case, then all that can be done is to wait until a reference for a preliminary ruling concerning the production fiction is expressly submitted for interpretation to the ECJ.

In July 2008 the Hague Court ruled in *Sosecal v Sisvel* that *Montex* does not prejudice the application of the production fiction because the ECJ had not been requested to decide on that particular issue. Similarly, in a 2009 ruling in *Philips Electronics v Dongguan Qisheng Electronics* the Antwerp Court of First Instance referred only to the *Polo Lauren* case law, and not to *Montex*, to prohibit the transit of goods through Antwerp on the basis of the Anti-piracy Regulation.

Clarification from the ECJ in this regard would be most welcome. In spite of the

ruling of the Hague court, the *Montex* and *Class International* decisions have at least created a strong impression that when goods – fake or not – originating from outside the European Community are placed under an external transit procedure, the trademark owner can act only when it can establish a substantiated risk that the goods would illegitimately be placed on the market in the transit country, and that this would infringe its trademark rights. The ECJ ruled that a merely theoretical risk of this happening will not suffice.

The role and responsibility of intermediaries

The transnational distribution of goods is not usually a one-man show. Thus far, the ECJ has ruled only on cases between the rights holder and the owner of the disputed goods. A vacuum exists as to the position of intermediaries in the process, including transport companies, expeditors, handlers, logistics companies and warehouse suppliers. The Anti-piracy Regulation does not mention these intermediaries. In fact, the regulation is neutral as to whom the rights holder must revert to. In respect of the penalties for infringement, Article 17 empowers the competent authorities to take any measure to deprive "the persons concerned" of economic gains derived from the transaction. These broad terms leave much room for interpretation.

The IP Enforcement Directive does provide that both provisional measures and injunctions must be made available against an intermediary whose services are used by the infringer. In the Benelux countries, this requirement is met by Article 2.22 of the Benelux Intellectual Property Treaty. These remedies, contrary to those of the Anti-piracy regulation, are also available to counter parallel imports.

The Commercial Court of Brussels recently awarded damages to adidas to the detriment of the custodian of illegitimately imported (authentic) shoes in *adidas v Universal Express NV*. Although the intermediary's own actions did not amount to trademark infringement "as such", it was found liable under general Belgian tort law as the custodian of a defective product.

The intermediary will attempt to recover its losses from the importer of the goods. However, such claims do not concern the trademark holder. If the liability of the intermediary passes the test of further scrutiny, it may be a useful tool to combat counterfeiting and parallel imports: the trademark owner will not have to go to the trouble of locating the importer

in order to obtain damages, and intermediaries will probably think twice before they accept business from infringers and parallel importers.

Use of customs information to counter parallel trade

The ECJ has additionally been requested to rule on the question of whether information obtained by a trademark holder from the customs authorities in the context of the Anti-piracy Regulation may also be used for other ends. The Brussels Commercial Court has referred questions in this regard to the ECJ in *Beecham Group v Andacon* (C-132/07).

Article 12 of the Anti-piracy Regulation provides that information obtained by the rights holder from the customs authorities in application of the Anti-piracy Regulation may be used only for the purpose of ascertaining whether the goods in question infringe an IP right in the sense of the regulation. However, the second paragraph of that article sanctions other use of the information only insofar as it is “not permitted by national legislation”. In *Beecham Group v Andacon*, Beecham Group sought to be allowed also

to use the information obtained in proceedings to counter parallel imports, which do not fall within the scope of the Anti-piracy Regulation.

Advocate-General Ruiz-Jarabo Colomer has contended that any use permitted by national law is allowed pursuant to the second paragraph of Article 12. This is a liberal interpretation of the regulation, as the latter expressly provides that the information obtained by the rights holder may be used “only for the purposes” listed in the regulation. The fact that other uses of the obtained information are not expressly sanctioned if they are permitted by national law does not seem to circumvent that obligation.

As the parties to *Beecham v Andacon* have since settled their dispute out of court, the ECJ is unlikely to rule on these questions.

More to come?

The transit debate in Europe is far from over and many issues are open to interpretation. Trademark owners thus should keep a close eye on developments and future guidance from the ECJ. **iam**



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