



Anti-counterfeiting in the EU: theory and practice

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As part of the creation of a single market, the EU has introduced an EU-wide framework for preventing the importation and export of counterfeit goods. The current incarnation of this framework is in the form of the Regulation (EC) 1383/2003 on action against counterfeit and pirated goods (Regulation). This article focuses on trade marks and looks at:

- How the system works in theory and in practice.
- Its implementation in the UK.
- Its effectiveness in achieving its stated goals.

THE REGULATION IN THEORY

The Regulation came into effect on 1 July 2004 and is designed to introduce a system whereby customs authorities throughout the EU can take effective action against the rapidly increasing volumes of counterfeit and pirated goods entering and exiting the EU.

The Regulation allows customs authorities to suspend the introduction of goods into the EU if the goods are suspected of being counterfeit or pirated, or, more generally, infringe an IP right. It also covers export and re-export of these goods. The suspension period is designed to be sufficient for the IP right-holder to verify the nature of the goods and take appropriate action, without unduly prejudicing the importer or exporter's rights where the goods are genuine.

The Regulation covers goods coming from third countries into the EU, but does not cover:

- Goods already in free circulation in the EU.
- Goods manufactured with the IP right-holder's consent but imported or transhipped without his consent (parallel importation).
- Goods in personal baggage of a non-commercial nature within the limits of the duty-free allowance.

Counterfeit goods are defined in the Regulation as goods and packaging that bear without authorisation a trade mark identical to (or that cannot be distinguished in its essential aspects from) a validly registered trade mark for the same type of goods. This also includes any trade mark symbol (including a logo, label, sticker, brochure, instructions for use or guarantee document bearing such a symbol), or packaging materials bearing the trade marks of the counterfeit goods, even if presented separately. The Regulation's definition of counterfeit goods is therefore much

more narrow than the "likelihood of confusion" criteria applied in opposition proceedings and traditional trade mark infringement cases.

Pirated goods are defined as goods which are copies, or which contain copies made without the consent of the holder of a copy-right or related right, or design right, regardless of whether it is registered under national law.

The other IP rights infringements covered by the Regulation relate to:

- Patents.
- Supplementary protection certificates.
- Plant variety rights.
- Designations of origin or geographical origin and geographical designations.

The Regulation contains particular provisions for each of these particular types of IP. This article focuses on trade marks and the corresponding counterfeit goods.

The Regulation has direct effect in EU member states. However, this does not necessarily mean that all of the countries have implemented it in the same manner, and harmonisation across the EU remains an issue.

THE REGULATION IN PRACTICE

The Regulation sets out a detailed step-by-step guide for operation of the system.

Application

For customs authorities to detain goods, the right-holder or an authorised representative must have filed an application (sometimes referred to as a customs watch application) setting out:

- A description of the goods so that they can be identified by the customs authorities.
- Proof of the IP right(s).
- Name and address of a contact person appointed by the right-holder.

Any information about a specific suspected consignment is particularly useful.



The Regulation also allows customs authorities to detain a consignment of goods suspected of being counterfeit where no application is on file. The customs authorities then notify the right-holder and can detain the goods for three working days from the date of notification to allow the right-holder to file an application.

There is no fee for filing an application, which is of great advantage to rights-holders, although the storage and destruction costs can be substantial (*see below*). An application remains in force for one year from grant, or if earlier, until the earliest expiry date of any of the trade marks listed in the application. Renewal of the application can generally be done without the need for filing a fresh application, although this depends on national practice.

The right-holder must also submit a written declaration accepting liability if goods are detained and subsequently released due to an act or omission by the right-holder, or the goods are found not to infringe the trade mark(s). This declaration also requires the right-holder to bear all costs incurred by storage and destruction of the goods.

Notification

The right-holder and the declarant/holder of the goods are informed of the detention, and if requested, the actual or estimated quantity and the actual or supposed nature of the goods. The right-holder may also request the names and addresses of the consignee, consignor, declarant or holder of the goods, and the origin and provenance of the goods, if these are known. This information is provided only to allow the right-holder to:

- Examine the goods.
- Contact the declarant/holder of the goods.
- Initiate infringement proceedings.

The information must not be used for any other purposes or disclosed to any other person.

The goods can only be detained for up to ten working days from the date of notification. This may be extended for a further ten working days on request, after which no further extension is possible. For perishable items the allowed detention period is up to three working days and is non-extendable.

Examination

The right-holder can inspect the goods, usually by a sample sent by the customs authority, to determine the nature of the goods. The sample must subsequently be returned to the customs authority within the detention period (*see above*).

During examination it is important that the continuity of evidence is preserved if a legal action is later brought against either party, and it is recommended that the examination is carried out in accordance with national legislation. For example, in the UK, it is recommended that a witness statement is produced.

Release, destruction or further detention

If examination of the goods shows them to be genuine, the right-holder should inform the customs authority as soon as possible so that the goods can be released as soon as possible and with the least possible damage to the declarant/holder of the goods.

Alternatively, if the examination is not completed within the allowed detention period (*see above*), and/or if the right holder does not respond to the customs notification within this period, the goods are released.

If, however, the examination shows the items to be counterfeit, the right-holder has three options:

- Obtain the declarant's/holder's agreement to destruction of the goods.
- Waive the IP rights and allow release of the goods.
- Commence a legal action for infringement.

In most cases, however, the cheapest and quickest method of obtaining destruction of the counterfeit goods is the simplified procedure under Article 11 of the Regulation. This allows EU member states to implement a procedure where the customs authority destroys the goods, if the declarant/holder of the goods gives a written agreement to abandon the goods for destruction. Although EU member states can choose whether or not to implement this simplified procedure, the conditions of use must not be altered.

In practice, the right-holder usually contacts the declarant/holder of the goods to seek their agreement to abandonment and destruction of the goods. As the ten-day limit (extendable by ten days) still applies, it is crucial that the right-holder acts swiftly as the declarant/holder must be given reasonable time to respond. Crucially, the agreement is presumed to be accepted if the declarant/holder has not specifically opposed the destruction within the prescribed period. In most cases, the declarant/holder does not respond and the right-holder communicates this to the customs authority within the allowed time period, including:

- A copy of the letter sent to the declarant/holder.
- Usually, a copy of the witness statement produced during examination.
- A request for destruction of the goods under Article 11 of the Regulation on the basis of the lack of response from the declarant/holder.

Alternatively, the declarant/holder may send a written agreement directly to the customs authority and the goods are then destroyed by the customs authority at the expense of the right-holder, although a sample is retained for use in the event of later legal proceedings.

If either party specifically opposes the destruction of the goods and/or contests the nature of the suspected counterfeit goods, the customs authority does not automatically destroy the goods. If right-holder decides, despite the counterfeit nature of the goods, not to pursue the matter, the right-holder can inform the customs authority that it waives its IP right(s) in this particular case and allow the release of the goods. This may apply if the volume of goods is very low and/or the right-holder does not wish to bring an action for infringement under national law.

The only other option available to the right-holder if the declarant/holder specifically opposes the destruction (or if agreement is not sought) is to bring an action for infringement under the



applicable national law. Again, the right-holder must act swiftly as proceedings must be initiated within the allowed period. In England and Wales, this requires a claim form to be issued and served on the declarant/holder of the goods. The right-holder must also notify the customs authority within the prescribed period and provide proof of commencement of proceedings. The customs authority then detains the goods until the outcome of the case and subsequently disposes of the goods in accordance with national legislation.

UK IMPLEMENTATION

In the UK, the Regulation was initially implemented through The Goods Infringing Intellectual Property Rights (Customs) Regulations 2004 (*SI 2004/1473*), which came into force on the same date as the Regulation.

Detention and destruction of suspected counterfeit goods, however, continued to be governed by the Customs & Excise Management Act 1979. This provided for a procedure similar to the Regulation's simplified procedure, although the conditions of use were slightly different to those set out in Article 11 of the Regulation. Most importantly, UK customs would carry out the destruction of the goods simply on request and confirmation, in the form of a witness statement from the right-holder that the goods were counterfeit. There was no requirement to show or state that the right-holder had sought the agreement of the declarant/holder for the abandonment and destruction of the goods.

In *HMRC v Penbrook Enterprises Ltd [2008]*, it was decided that the Customs & Excise Management Act 1979 was not in concordance the Regulation. As the Regulation is directly applicable to EU member states, the UK customs authority (HMRC) was obliged to modify their procedures to follow the precise requirements of the Regulation.

As a result, in June 2009 HMRC changed their practice so that goods would not be destroyed simply on the basis of the request and witness statement from the right-holder. Instead, right-holders were forced to the other extreme of having to obtain written agreement from the declarant/holder of the goods, or alternatively commence an action for infringement. The option of presumed acceptance of the agreement if the declarant/holder did not respond or specifically opposed the destruction was not available. This left right-holders with only one viable option, to bring an action for infringement, as the declarant/holder of the goods in most cases would simply not respond and the goods would otherwise be released.

Again, however, it was clear that the UK implementation was not entirely in line with the exact requirements of the Regulation. Subsequently, the Goods Infringing Intellectual Property Rights (Customs) (Amendment) Regulations 2010 (*SI 2010/324*) and The Goods Infringing Intellectual Property Rights (Customs) (Amendment) (No. 2) Regulations 2010 (*SI 2010/992*) were introduced, with *SI 2010/992* coming into effect on 16 April 2010. Following this latest revision it appears that UK practice has largely been harmonised with the Regulation and, in particular with the simplified procedure of Article 13 of the Regulation.

EFFECTIVENESS

The stated aims of the Regulation are to deprive those responsible for trading in counterfeit, pirated, or generally infringing goods of the economic benefits of the transaction and penalise them, but also to constitute an effective deterrent to further transactions of the same kind.

Submitting a customs watch application is fast, efficient and free of charge. This serves as a significant incentive to right-holders to make use of the system to police EU borders. However, right-holders bear the costs of storage and destruction, which, for example, in the case of a consignment of 60,000 items, can be significant. In addition, there are costs associated with contacting the declarant/holder of the goods, examining the goods and correspondence with customs authorities, all of which must take place within a relatively short period of time.

If the simplified procedure is used and the goods are destroyed, the right-holder has no means of recovering his costs. More importantly, there is no penalty for the declarant/holder other than the loss of the goods and there is no active deterrent to counterfeiting. Instead, it is left to the individual member states to provide an effective deterrent.

The Regulation does allow the right-holder to bring an action for infringement, which may constitute a deterrent. However, considering the very significant cost of litigation in many countries, this option is not often used. Moreover, the very short time period in which the right-holder must examine the goods, contact the declarant/holder of the goods, issue proceedings and inform the customs authorities, renders the system rather complex. Commencing an infringement action requires consideration and preparation, something which the current system with its very short time limit does not fully take into account.

However, it is also important that the rights of the declarant/holder of the goods be taken into account and the initial time period of ten days is designed to do this. In particular, in the event that the goods are genuine it is important that the declarant/holder not be unduly prejudiced. In addition, as the right-holder is liable for any damage caused in the event that the goods are found to be genuine, the time period also serves to protect the right-holder's interests.

In practice the system can be efficient and effective if used properly. Firstly, the customs watch application must be submitted or renewed in time on a yearly basis or when the trade marks covered by the application expire. Any additional information that can aid customs authorities in identifying the goods or targeting a particular consignment is particularly useful. It is therefore important for the right-holder or their authorised representative to have internal procedures in place so that on notification by customs authorities of suspension of a suspect consignment the right-holder can:

- Ascertain whether the consignment might be authorised or genuine.
- Examine a sample of the goods.



- Contact the declarant/holder to seek their agreement to abandonment and destruction of the goods.
- Communicate with the customs authorities.
- Commence an action for infringement if necessary.

Speed is of the essence in such a situation, but reliable examination of the goods and suitable witness statements also play a role. It is also very useful to have internal guidelines for quickly deciding whether or not to bring an action for infringement. A database of details of past detentions, for example, can aid in identifying:

- Repeat offenders.
- The origin of the goods.
- The volumes involved.
- The geographical scope of the counterfeiting problem.

The Regulation does not require customs authorities to check every single consignment, and the Regulation, (save as modified by the law of the relevant member state) specifically bars the right-holder from claiming compensation in the event that counterfeit goods are not detected by a customs authority and/or are not detained. The onus is therefore on the right-holder to provide the customs authorities with the appropriate information to be able to identify the goods and the appropriate support post-notification to enable customs authorities to handle the case efficiently. In particular, good communication with customs authorities acts as an incentive for them to check consignments and notify the right-holder, and in this regard it is crucial to respond to all customs notifications regardless of the quantity of goods suspended.

Although the system laid in place by the Regulation may not act as an active deterrent to counterfeiters, it is still an efficient tool, and provided it is used in the correct way and the correct procedures are in place, right-holders can make use of in a relatively cost-efficient manner to limit the number of counterfeit items entering the EU. It does not tackle the source of the problem, but is a remedial measure that works on an EU-wide basis to limit, in a simple way, the impact of counterfeiting.

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