



FACULTY OF LAW  
Lund University

Gustaf Åkesson

# Counterfeit goods in transit

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A study regarding counterfeit goods in transit and liability of intermediaries

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Supervisor Xavier Groussot

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# Summary

Customs Regulation (EC) No 1383/2004 allows Customs to seize counterfeit goods entering or leaving the European Union's borders. It is applicable to almost any type of goods, whatever customs status they have. Transit is a customs procedure used to facilitate trade, meaning that goods are not subject to import charges and duties until they arrive and cleared at the final destination. However, counterfeit goods put under customs transit procedure is considered by the ECJ as if the goods had not entered the Union at all. Consequently, goods in transit are not considered to be put on the market and hence not used in the course of trade which is the decisive element when determine an trademark infringement.

The difficulties of reaching counterfeit goods in transit, but also in general, make it necessary for intellectual property right-holders to focus on other parts of the distribution chain. Increasing efforts are being made, and more opportunities are given proprietors of intellectual property rights to enforce their rights by targeting intermediaries such as forwarding agents and carriers which could be held liable.

This thesis aims to study the legal situation relating to counterfeit goods in transit and the responsibilities of intermediaries in the transport of such goods. Outstanding issues that could be interpreted differently, or at least, has not been treated exhaustively by the national courts have been discussed.

Finally, it is noted that the application of the law is not wrong, despite that it is difficult to stop counterfeit goods in transit. The difficulties in stopping counterfeit goods in transit are in the European Union a problem of political nature, or rather, a problem which is based in the lack of political will to tackle the problem.

# Sammanfattning

Tullförordning 1383/2004 ger tullen befogenhet att beslagta varumärkesförfalskade varor som kommer in, respektive lämnar, den Europeiska Unionen. Förordningen är tillämplig på i stort sett alla varuslag och oavsett vilken tullstatus de har. Genom att sätta varor under ett tullförfarande som kallas transit beläggs dessa varor inte med importavgifter eller tullar förrän de ankommer och deklarerats vid den slutgiltiga destinationen. Varumärkesförfalskade varor som är satta under transit är enligt Europeiska unionens domstol att anse som om de överhuvudtaget inte har förts in i Unionen. Varor som befinner sig i transit anses följaktligen inte vara satta på marknaden och därmed används de inte i näringsverksamhet som är det avgörande rekvisit för att ett intrång i varumärkesrätten ska anses föreligga.

Svårigheterna att komma åt varumärkesförfalskade varor i transit, men även intrång i immateriella rättigheter generellt, gör det intressant för immaterialrättsinnehavare att rikta in sig mot andra led i distributionskedjan. Allt större insatser görs, och allt större möjligheter ges, för att komma åt problemen med intrång i immateriella rättigheter genom att hålla mellanhänder, såsom transportörer och speditörer, ansvariga på grund av att deras tjänster används till intrång.

Denna uppsats syftar till att utreda rättsläget vad som gäller för varumärkesförfalskade varor som befinner sig i transit samt vilket ansvar mellanhänder har i transporten av dessa varor. Utstående frågor som skulle kunna tolkas annorlunda, eller i vart fall, inte har behandlats uttömmande av nationella domstolar har tagits upp till diskussion.

Slutligen konstateras det att tillämpningen av lagstiftningen inte är felaktig men trots det är det svårt att komma åt varumärkesförfalskade varor som befinner sig i transit. Svårigheterna att stoppa varumärkesförfalskade varor som befinner sig i transit genom Europeiska Unionen är alltså ett problem av politisk karaktär, eller snarare ett problem som grundar sig i bristen på politisk vilja att komma tillrätta med problemet.

# Preface

I would first like to thank Ann-Charlotte Söderlund at Delphi Advokatbyrå, Stockholm, who introduced me to this interesting subject. Ann-Charlotte is one of the leading practitioners in the world working with anti-counterfeit. Every time I have called her, she has been at a different location in the world, always on the go to meet colleagues and educate others about anti-counterfeiting. It has been very inspiring to work with Ann-Charlotte and I have had the fortune to be put in touch with her colleagues in finding answers to my question.

I would like to thank Peter von Heidenstam at Heidenstam Legal for his interesting insights in a recent case before Stockholm District court and with whom I have been able to discuss interesting arguments about counterfeit goods in transit.

I am utmost grateful for the outstanding help I got from Mr. Jim Bikoff. Mr. Bikoff has guided me through the most important legal cases and current developments in case law related to counterfeit goods in transit under the U.S system.

Sofia Engel and Monica Fridolf at the Swedish Customs authorities has given me great answers about the Customs anti-counterfeit

Finally I would like to thank my supervisor Xavier Groussot at the Faculty of Law at University of Lund who has given me guidance in structuring this thesis.

Ultimately, yet importantly, I wish to thank all the great people at Delphi Advokatbyrå, Malmö, for their hospitality and a nice atmosphere during the 8 weeks of my internship.

# Abbreviations

AG	Advocate General
EC	European Community
ECJ	European Court of Justice
EFTA	European Free Trade Association
EU	European Union
TEC	Treaty establishing the European Community
TFEU	Treaty on the Functioning of the European Union
TRIPS	The World Trade Organizations agreement on Trade Related Aspects of Intellectual Property Rights
WTO	World Trade Organization
WIPO	World Intellectual Property Organization



# 1 Introduction

## 1.1 Subject and purpose

The purpose of this thesis is to examine the legal situation related to counterfeit goods in transit through the European Union.

The customs transit procedure allows for an unbroken trading route, meaning goods are put under a temporary suspension of duties, taxes and commercial policy measures that usually are applicable at import of goods. However, there is a legal uncertainty whether it is possible for customs authorities to apply border measures on goods in transit. Council Regulation (EC) No 1383/2003 is expressly applicable on goods in transit, but the enforcement of border measures on goods infringing intellectual property rights is applied differently in the Member states. A broad interpretation meaning that goods in transit that infringe intellectual property rights are treated as manufactured in the country where the customs detain the goods. A narrow interpretation, which briefly means that goods put under the customs transit procedure, is out of reach of intellectual property legislation since they are considered to not being used in the course of trade. These two divergent interpretations among national courts have led to significant differences in the application of the Regulation.

Difficulties in reaching counterfeit goods in transit have led to a shift of interest for proprietors to target intermediaries such as forwarding agents and carriers. Community legislation provides for liability for intermediaries providing services used by fraudsters infringing intellectual property rights.

This thesis seeks primarily to examine the legal situation regarding counterfeit goods in transit. To make it transparent, I have chosen to answer the following supplementary questions:

- Is Council Regulation (EC) No 1383/2003 applicable on goods in transit?
- What conclusions can be drawn from the ECJ case law?
- How has Council Regulation (EC) No 1383/2003 and its predecessors been applied in the Member states?
- Liability of intermediaries – is it possible to hold the middleman accountable?

## 1.2 Method and Materials

The introductory descriptive part of this thesis is based on a legal dogmatic method that includes an examination of Community law, national law, preparatory work, case law and doctrine. Using this method provides for an examination of the legal causes to problems that has arose regarding counterfeit goods in transit and gives the reader a basic understanding of the problem. This first part consists of a thorough study of Council Regulation (EC) No 1383/2003 where I have benefited greatly from the extensive work done by Oliver Vrins and Marius Schneider in *Enforcement of Intellectual Property Rights Through Border Measures. Law and Practice in the EU*.

How to stop counterfeit goods in transit has shown to be a very complex question and little is written about this issue. National court decisions have developed into two divergent directions, so has legal scholars and much is left to be answered. Therefore is the analytical part by its nature problem-based meaning that I have thoroughly gone through problematic areas and discussed outstanding issues.

## 1.3 Delimitations

This thesis focuses primarily on the legal situation concerning counterfeit and pirated goods put under customs transit procedure. Council Regulation (EC) No 1383/2003 is applicable on patents and other intellectual property rights but I have chosen to focus on counterfeit and pirated goods since statistics shows that these categories of goods infringing intellectual property rights detained at the borders represents the bulk.

Council Regulation (EC) No 1383/2003 is close connected to Council Regulation (EC) No 40/94 on Community trademark and national trademark laws. This legislation is part of the problem and therefore important but will only being processed on the most necessary parts.

The comparative part of the application of Council Regulation 1383/2003 will be limited to Finland, the Netherlands and Sweden. There are various reasons why I have chosen these particular countries. Finland has a trademark law that include goods in transit, the Netherlands has been at the forefront interpreting Council Regulation (EC) No 1383/2003 and its predecessors in a broad sense and thus reach goods infringing intellectual property rights put under customs transit procedure. Finally, I have chosen to examine the legal situation on counterfeit goods in Sweden due to an interesting case that came before the Swedish District Court while writing this thesis.

Liability of intermediaries is in this examination seen from a right-holder perspective and thus the enforcement of intellectual property rights. This topic is closely related to rules on unfair competition in some Member

States, however such discussion is left out due to the need of limiting this examination.

Finally, this thesis aims to examine counterfeit goods put under customs transit procedure but does not discuss provisions applicable when goods is found to infringe an intellectual property rights such as remedies and penalties.

## **1.4 Disposition**

This thesis discusses two main topics, counterfeit goods in transit and liability of intermediaries. Each topic is divided into two parts, a descriptive part followed by an analytical part. The purpose of the descriptive part is to provide for a deeper understanding in how counterfeit goods put under transit has arose to a serious problem respectively what liability could be imposed on intermediaries. The analytical part will form as a base for lifting up problematic issues in the light and put them in perspective.

Chapter 2 gives a general overview and introduction to counterfeit goods, what it amounts to, what socioeconomic effects it causes and finally an introduction to the Community Customs Code.

Chapter 3 provides for an extensive overview of Council Regulation (EC) No 1383/2003 that sets out the provisions for border measures on goods infringing intellectual property rights.

Chapter 4 is an thoroughly examination on counterfeit goods in transit including a review of legislation, case law, a comparison of the US system and finally an analytical discussion on the topic.

Chapter 5 examines liability of intermediaries and especially carriers and forwarding agents in their role and participation of counterfeit goods in transit.

Finally, chapter 6, with my concluding remarks.

## 2 General Overview

This chapter deals with various aspects surrounding counterfeit goods in transit. First given is statistics showing what amount of counterfeit goods passing customs authorities in the EU followed by an example of socio-economical effects that comes with counterfeit goods. Finally, an introduction to the Community Customs Code that sets out important provisions regarding goods put under the customs transit procedure.

### 2.1 Facts and figures

The role of Customs is of high importance in the fight against goods infringing intellectual property rights. By the very nature of the goods, the Customs role is centred to examination of physical goods crossing the borders to the European Union and its Member States. Since the Customs cannot examine every cargo of goods which entering or leaving the Union, although in principle all goods are subject to examinations, the Customs authorities has to rely on targeted raids and risk management methods.<sup>1</sup>

Fifty percent of all articles that were seized during 2008 were intercepted in import procedures, 26 percent were goods in transit and 21 percent in re-export. 93 percent of these articles were detained under the suspicion of a trademark infringement and 6 percent were suspected to infringe a patent.<sup>2</sup> 73 percent of all cases were derived from commercial traffic and 26 percent from passenger traffic. When looking into articles detained this ratio changes to 99 percent commercial traffic and 1 percent passenger traffic. The majority of these articles are transported by sea and road.<sup>3</sup>

It has been a constant raise in applications for action by the customs authorities. From 1.000 filed applications in 2000 to nearly 13.000 in 2008. Despite this increase of applications Customs authorities has initiated 20 percent of all customs actions ex-officio.<sup>4</sup>

Interest for strong actions against counterfeit goods from government side has long been weak. It has instead been considered to be in the right holders' own (economic) interest to bring actions against infringers and safeguard their rights.<sup>5</sup> Nevertheless, time has changed and the interests at stake. A study from OECD suggests that the turnover of counterfeit and pirated

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<sup>1</sup> Report on EU Customs Enforcement of Intellectual Property Rights p. 5.

<sup>2</sup> Ibid, p. 13.

<sup>3</sup> Ibid, pp. 16.

<sup>4</sup> Ibid, p. 6.

<sup>5</sup> Steinhäuser, P., *New attitudes to anti-counterfeiting in the Netherlands*, World Trademark Review, March/April 2008, p. 52.

goods could amount up to USD 250 billion in 2007.<sup>6</sup> Mark Bearfoot calls for a greater responsibility to be taken by the state. If importers challenge seizures of goods and destruction of counterfeit goods should call for legal proceedings initiated by Customs on behalf of the right holders.<sup>7</sup> The cost of storage and destruction of counterfeit goods should be borne by the Customs. Bearfoot underline the fact that infringement of intellectual property rights is an criminal offence and thereby is not too much to ask that the state carries a greater responsibility.<sup>8</sup>

## 2.2 Socioeconomic effects of counterfeit goods

It is not only economic considerations underlying the purpose and benefits of a forceful system against counterfeit. Consumers' health and safety is mentioned in the second recital of the Regulation as an important reason to stop counterfeit goods. This is not pure invention but of big concern are for example counterfeit pharmaceuticals.<sup>9</sup>

The pharmaceutical industry is particularly exposed for counterfeit. Drug companies are losing billions every year because of the very profitable market of counterfeit medicines. Counterfeiters focus mainly on high volume and expensive medicines with the simple explanation that these medicines bring maximum profit.<sup>10</sup> Production costs are easily kept to a minimum since place of production can be as simple as a small cottage in a developing country. There is no need for good manufacturing practice or quality checks. Moreover, if the medicine is prepared without active substance is the only ingredient needed water and starch that is not very costly.<sup>11</sup>

The market for counterfeit medicines is attractive for counterfeiters due to many reasons. Demand is infinite. Consumers are often in a vulnerable situation where prices are high on the legal market or supply could be insufficient. This means that patients seek out cheaper alternatives, thus means an increasing demand for alternative distribution channels i.e. illegal distribution channels.<sup>12</sup>

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<sup>6</sup> OECD (2009), *The Economic Impact of Counterfeiting and Piracy - Magnitude of counterfeiting and piracy of tangible products: an update November 2009*, OECD, Paris, see [www.oecd.org/sti/counterfeiting](http://www.oecd.org/sti/counterfeiting)

<sup>7</sup> Mark Bearfoot, *Counterfeiting perspectives – Too much pressure*, World Trademark Review, October/November 2009 p.36.

<sup>8</sup> Ibid, p. 36.

<sup>9</sup> World Health Organization defines counterfeit medicines as: 'A counterfeit medicine is one which is deliberately and fraudulently mislabeled with respect to identity and/or source. Counterfeiting can apply to both branded and generic products and counterfeit products may include products with the correct ingredients or with the wrong ingredients, without active ingredients, with insufficient (inadequate quantities of) active ingredient(s) or with fake packaging' <http://www.who.int/medicines/services/counterfeit/faqs/03/en/index.html>

<sup>10</sup> <http://www.who.int/medicines/services/counterfeit/faqs/QACounterfeit-October2009.pdf>

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

When people are in desperate need for cure, signals that it could be fake medicine are easily ignored. Counterfeit medicines are not just a matter of economic losses for the pharmaceutical industry but an issue that comes with much greater losses, losses of human life. Deaths have been reported from different parts of the world. In 1995, 2,500 Nigerians died during a meningitis outbreak after they were inoculated with fake vaccines believed to have come from India.<sup>13</sup> Another example comes from Haiti, where cough medicine made in China contained glycerine and caused the death of more than 80 children.<sup>14</sup>

The European Medicines Agency made a public warning for counterfeit medicines in circulation last year when the swine flu pandemic caused a public rush to the drug counters. Especially Internet as a distribution channel called for extra care where fake, adulterated or unauthorized antiviral medication or vaccines circulated.<sup>15</sup>

## 2.3 The Community Customs Code

The Community Customs Code compiles the rules, arrangements and procedures applicable to goods entering and leaving the European Community and non-member countries. The Code is a single act covering the scope, definitions, basic provisions and content of Community customs law.

The Council Regulations regarding the enforcement of border measures on goods infringing intellectual property rights has a close connection to the Code. The Code is not only the central component to the whole customs union but also draws up the framework for these Regulations. With this chapter, my intention is to provide the reader with an overview of the subject matter in the Code, especially the transit procedure. A short look in the rear-view will provide for a deeper understanding.

### 2.3.1 Background

Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code (hereinafter ‘the Code’) is a massive piece of Community legislation. The 253 Articles in the Code plus the 913 Articles with 113 Annexes in the Implementing Regulation<sup>16</sup> founds the cornerstones for the European Community’s customs legislation. Further guidance is found in the implementing provisions, a document over 700

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<sup>13</sup> <http://www.time.com/time/magazine/article/0,9171,644218,00.html>

<sup>14</sup> [http://news.bbc.co.uk/2/hi/programmes/file\\_on\\_4/3707386.stm](http://news.bbc.co.uk/2/hi/programmes/file_on_4/3707386.stm)

<sup>15</sup> <http://www.ema.europa.eu/Inspections/Counterfeits.html>

<sup>16</sup> Commission Regulation (EEC) No 2454/93 of 2 July 1993 laying down provisions for the implementation of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code [OJ L 253, 11.10.1993]

pages long. Implementing powers are conferred on the Commission, which is assisted by a Customs Code Committee.<sup>17</sup>

The very core in the Community Customs Code derives from four principles agreed upon 1 July 1968 between the six original Member States to the European Union; Belgium, France, Germany, Italy, Luxembourg and the Netherlands. The agreement led to the beginning of the Customs Union, and the four principles are:

- No customs duties at internal borders between the Member States;
- Common customs duties on imports from outside the Union;
- Common rules of origin for products from outside the Union;
- A common definition of customs value.<sup>18</sup>

With the four pillars in place, continued efforts were taken to harmonize the rules. The basic idea with the Union was that, regardless of what type of goods and regardless where at the external border to the Union goods were brought in, same rules shall apply.

Briefly, this basic idea was developed further and supplemented with the following principles:

- One tariff to rule them all, applied in the same way all along the EU's external borders;
- One common approach on warehousing procedures;
- One common procedure for goods in transit;
- One administrative document, replacing the wide variety of customs documents

In 1992, the Union had not only grown but also brought the abovementioned rules together in a single document, the Community Customs Code.<sup>19</sup>

## 2.3.2 Definitions

Article 4 sets out the used definitions in the Code. This terminology is also frequently used in Council Regulation (EC) No 1383/2003 and in the following chapters that entail a necessary introduction to terminology used;

'Article 4

For the purposes of this Code, the following definitions shall apply:

(6) 'Customs status' means the status of goods as Community or non-Community goods.

(7) 'Community goods' means goods:

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<sup>17</sup> Article 247a, Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code [OJ L 302, 19.10.1992].

<sup>18</sup>

[http://ec.europa.eu/taxation\\_customs/40customs/customs\\_general\\_info/about/index\\_en.htm](http://ec.europa.eu/taxation_customs/40customs/customs_general_info/about/index_en.htm)

<sup>19</sup> Ibid.

— wholly obtained in the customs territory of the Community under the conditions referred to in Article 23 and not incorporating goods imported from countries or territories not forming part of the customs territory of the Community. Goods obtained from goods placed under a suspensive arrangement shall not be deemed to have Community status in cases of special economic importance determined in accordance with the committee procedure,

— imported from countries or territories not forming part of the customs territory of the Community which have been released for free circulation,

— obtained or produced in the customs territory of the Community, either from goods referred to in the second indent alone or from goods referred to in first and second indents.

(8) ‘Non-Community goods’ means goods other than those referred to in subparagraph 7.

Without prejudice to Articles 163 and 164, Community goods shall lose their status as such when they are actually removed from the customs territory of the Community.

(15) ‘Customs-approved treatment or use of goods’ means:

- (a) the placing of goods under a customs procedure;
- (b) their entry into a free zone or free warehouse;
- (c) their re-exportation from the customs territory of the Community;

(16) ‘Custom procedure’ means:

- (a) release for free circulation,
- (b) transit,
- (c) custom warehousing’

### **2.3.3 Subject matter**

From the time when goods enter the Community and thereby are brought into the customs territory of the Community they shall be placed under customs supervision. This supervision remains until their customs status is determined or in the case of non-Community goods until their custom status is changed, they enter a free zone or free warehouse or they are re-exported or destroyed.<sup>20</sup>

Since the distinction between Community and non-Community goods is important for the further process non-Community goods presented to customs shall be assigned a customs-approved treatment or use authorized for such non-Community goods.<sup>21</sup>

All cargos of goods, intended to be placed under a customs procedure, shall be covered by a declaration made in writing or processed in the electronically systems used by the customs authorities.<sup>22</sup> If non-Community goods that is initially not intended for the Community market at a later stage is changed to be released for free circulation its customs status must be changed. This entails an application of all the commercial policies and procedures linked to Community goods.<sup>23</sup> Save as otherwise provided, goods may at any time be ‘assigned any customs-approved treatment or use

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<sup>20</sup> Ibid, Article 37.

<sup>21</sup> Ibid, Article 48.

<sup>22</sup> Ibid, Article 59 and 61.

<sup>23</sup> Ibid, Article 79.



irrespective of their nature or quantity, or their country of origin, consignment or destination.’ However, this does not preclude the ‘imposition of prohibitions or restrictions justified on grounds of public morality, public policy or public security, the protection of health and life of humans, animals or plants...value or the protection of industrial and commercial property.’<sup>24</sup>

Finally, it is not just goods entering the Community that has to follow certain procedures but also goods leaving the customs territory. Consequently, goods leaving the customs union shall be put under supervision of customs authorities. If needed, and appropriate, certain routes and procedures determined by the customs authorities have to be followed.<sup>25</sup>

### **2.3.4 Customs transit procedure**

Customs transit is a customs procedure used to facilitate the movement of goods between two points of a customs territory, via another customs territory, or between two or more different customs territories.

The transit procedure allows for the temporary suspension of duties, taxes and commercial policy measures that are applicable at import, thereby allowing customs clearance formalities to take place at the destination rather than at the point of entry into the customs territory.<sup>26</sup>

The principal of the goods has to provide a guarantee for the payment of any customs debt or other charges, if obligations connected to the transit procedure were not fulfilled.<sup>27</sup>

To put goods under a customs transit procedure is particularly convenient in the Community where a single customs territory is combined with a multiplicity of fiscal territories. This allows the movement of goods under transit from their point of entry into the Community to their point of clearance where both the customs and national fiscal obligations are taken care of.<sup>28</sup>

The transit systems used within the European Union are<sup>29</sup>:

- Common (within and between the EU and EFTA-states)<sup>30</sup> and Community transit (within the European Union)

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<sup>24</sup> Ibid, Article 58.

<sup>25</sup> Ibid, Article 183.

<sup>26</sup> Ibid, Article 91.

<sup>27</sup> Ibid, Article 94.

<sup>28</sup> [http://ec.europa.eu/taxation\\_customs/customs/procedural\\_aspects/transit/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/procedural_aspects/transit/index_en.htm)

<sup>29</sup> Ibid, supra note 17, Article 91.

<sup>30</sup> Convention between the European Economic Community, the Republic of Austria, the Republic of Finland, the Republic of Iceland, the Kingdom of Norway, the Kingdom of Sweden and the Swiss Confederation, on a common transit procedure [OJ L 226, 13.8.1987].

- TIR Convention, mainly used for road transported goods, entering or leaving customs territories outside the EU and the EFTA-states
- The ATA System (ATA and Istanbul Conventions)
- Rhine manifest
- NATO movements
- Post (including parcel post)

Although there are several systems for customs transit procedures, but of interest in this essay is to show what Customs status the goods have. The Code refers to two transit procedures in this regard, *internal* respectively *external* transit. The reason to this division is to show which Customs status the goods are put under i.e. Community or non-Community goods.

External transit procedure is a customs procedure allowing the movement of non-Community goods from one point to another within the customs territory of the Community without those goods being subject to import duties or other charges or to commercial policy measures (with the exception of certain Community goods, special conditions apply).<sup>31</sup>

Internal transit procedure shall allow, under certain conditions, the movement of Community goods from one point to another within the customs territory of the Community passing through the territory of a third country without any change in their customs status.<sup>32</sup>

Non-Community goods brought into the customs territory of the Community cannot be released from the customs office or other approved place (Article 38 Community Customs Code - CCC) at which they are presented until they are assigned to a 'customs-approved treatment or use'.

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<sup>31</sup> Ibid, supra note 17, Article 91.

<sup>32</sup> Ibid, supra note 17, Article 163.

# 3 Enforcement of border measures against goods infringing intellectual property rights

The development of Community law concerning border measures against goods infringing intellectual property rights has been rapid. Council Regulation (EC) No 1383/2003 is the fourth generation stemming from the first regulation adopted in 1986.<sup>33</sup>

Within this chapter, a historical background on the development of Community law concerning border measures against goods infringing intellectual property rights is followed by a more detailed review of the current Council Regulation (EC) No 1383/2003.

## 3.1 Historical background

### 3.1.1 First generation

Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods<sup>34</sup> entered into force 1 January 1988. This regulation gave the right holder of a trademark the possibility to lodge an application with a request, to the competent national authority in that Member State (which could be the custom authorities), for suspension of goods suspected of infringing intellectual property rights.<sup>35</sup>

When investigating the goods and arriving at a decision whether an infringement was present or not, same criteria shall be used as those to determine whether goods produced in the Member State concerned were originals or not.<sup>36</sup>

The general rule when goods found to be counterfeit goods was that the goods should be destroyed or disposed from the commercial channels by the national competent authority.<sup>37</sup>

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<sup>33</sup> Schneider, M., and Vrins, O. 'Regulation (EC) 1383/2003', chapter 3, Enforcement of Intellectual Property Rights Through Border Measures. Law and Practice in the EU, edited by Schneider, M. and Vrins, O., Oxford University Press, p. 67.

<sup>34</sup> Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods [OJ L 357, 18/12/1986 P]

<sup>35</sup> Ibid, Article 3.

<sup>36</sup> Ibid, Article 5 (2)(b).

<sup>37</sup> Ibid, Article 8.

According to Schneider and Vrins was this Regulation never very efficient, neither the national authorities nor the holders of trademarks utilized the possibilities provided.<sup>38</sup> A possible explanation to this and worth remembering, in the further reading, is that this Regulation only applied to goods entered for free circulation. This opened up an easy side road for counterfeiters wishing to circumvent Customs interventions by bringing the goods to a Member State other than the intended final destination<sup>39</sup>

In 1993, the Commission presented a proposal that would have meant a widening of the scope of the Regulation to also cover pirated goods and broaden the boarder measures to also include export of goods and goods in transit. Unfortunately, the proposal was rejected.<sup>40</sup>

### 3.1.2 A second attempt

The first attempt to revise and widening the Regulation failed due to a debate regarding the legal basis of adopting the proposed text. A second attempt was made in 1994 and the Commission succeeded this time in pushing a revised proposal further.<sup>41</sup>

The proposal was adopted and Council Regulation (EEC) No 3842/86 was replaced by Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods. The new Regulation came into force as of 1 July 1995.<sup>42</sup>

This second generation Regulation widened the scope to also include pirated goods meaning goods made without the consent of the holder of the copyright or neighbouring rights and also design rights. Furthermore, the new Regulation did also extend the customs procedures where custom authorities were allowed to take action to also include export, re-export and goods placed under suspensive custom procedures.<sup>43</sup> And finally, the European Community did also take into account the TRIPS-agreement and implemented those provisions, especially the measures to be taken at the border, in the new Regulation.<sup>44</sup> WTO members are in fact just obliged to provide right holders with border measures concerning imported goods suspected for infringing intellectual property rights.<sup>45</sup>

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<sup>38</sup> Schneider, M., and Vrins, O., supra note 33, p. 67.

<sup>39</sup> Schneider, M., and Vrins, O., supra note 33, p. 74.

<sup>40</sup> Schneider, M., and Vrins, O., supra note 33, p. 67.

<sup>41</sup> Schneider, M., and Vrins, O., supra note 33, p. 68.

<sup>42</sup> Article 1, Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods [OJ L 341, 30.12.1994].

<sup>43</sup> Ibid, Article 1.

<sup>44</sup> Explanatory Memorandum COM(2003) 20 final 20.01.2003 p. 2.

<sup>45</sup> Article 51, TRIPS Agreement, (The TRIPS agreement, Annex 1C of the Marrakech Agreement Establishing the World Trade Organization, signed in Marrakech, Morocco on 15 April 1994)

Another tool, that has been proved successful<sup>46</sup>, was the introduction of the *ex officio* procedure allowing the custom authorities to take actions against goods infringing intellectual property rights before an application from the right holder has been lodged and approved. It presupposes that it appears evident that goods are counterfeit or pirated.<sup>47</sup>

### **3.1.3 The third generation**

In 1999 an amendment was added to Regulation 3295/94 and in connection with this the title was replaced and hereinafter named 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.<sup>48</sup>

This third generation of Community legislation on border measures widened the scope furthermore. Not only did this mean a wider scope of protection to include goods infringing patents or supplementary certificates but it also gave custom authorities greater means when to take on border measures on goods suspected of infringing intellectual property rights and this applied to whatever custom status the goods had.<sup>49</sup>

Another improvement that has played an important role in the battle against counterfeit goods is that the third generation of the Regulation simplified the process for action for holders of a Community trademark. An application for action became enforceable Community wide for holders of such a right.<sup>50</sup>

## **3.2 Council Regulation (EC) No 1383/2003**

Council Regulation (EC) No 1383/2003 of 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 (hereafter referred to as ‘the Regulation’) repealed and replaced Council Regulation (EC) No 3295/94.

### **3.2.1 Introduction to the Regulation**

According to the explanatory memorandum, attached to the Commission’s proposal for a new Regulation, was the main reason of the replacement of Council Regulation (EC) No 3295/94 to improve the working of the system and step up the fight against fraud at the Community’s external frontiers.<sup>51</sup> The immense increase in items infringing intellectual property rights called

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<sup>46</sup> Schneider, M., and Vrins, O., *supra* note 33, p. 68.

<sup>47</sup> Council Regulation (EC) No 3295/94, *supra* note 42, Article 4.

<sup>48</sup> Council Regulation (EC) No 241/1999 of 25 January 1999 amending Regulation (EC) No 3295/94 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods, [OJ L 27, 2.2.1999]

<sup>49</sup> *Ibid*, Recital 3 and Article 1(2)(a).

<sup>50</sup> *Ibid*, Recital 5-7.

<sup>51</sup> COM(2003) 20 final, *supra* note 44, pp. 2.

for a development in the legislation aimed at improve and harmonise customs action against this highly lucrative market for fraudsters whose methods are becoming more sophisticated.<sup>52</sup>

An important observation made in the explanatory memorandum is that the fundamental principles from the previous Regulation were not to be affected by the new Regulation.<sup>53</sup>

The Commission presented a proposal<sup>54</sup> for a new regulation where a selection of the main improvements is listed below:

- Extend the scope of the Regulation to include new intellectual property, namely plant variety rights, geographical indications and designations of origin.
- Harmonization of administrative procedures regarding the application for customs action.
- Improved legal rights for ‘the defendant’ in the meaning that it prevents abuse of information provided by customs to the right holder.
- Abolished fees and securities to ensure access to the border measures also for small and medium-sized industries and enterprises.
- Increase the use of the ex officio measures.
- Right holders will receive more detailed and frequent information from customs and also be provided with samples for analysis.
- And finally, provide for a simplified procedure that allows a quick destruction of goods infringing intellectual property rights.

The Council adopted the Commissions’ proposal on the 22 July 2003, and was supposed to become applicable on 1 July 2004. Due to problems with the translation service was the publication in the Official Journal delayed until 30 October 2004. This caused an unwanted period of legal uncertainty.<sup>55</sup> The Regulation was followed by an implementation regulation – Commission Regulation 1891/2004 (as subsequently amended on the accession of Bulgaria and Romania to the European Union by Commission Regulation 1172/2007).

A compelling reason to have a strong and effective regulation that deals with the problem of the increasing amount of counterfeit and pirated goods flowing into the Community is that it entails substantial injury in relation to

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<sup>52</sup> COM(2003) 20 final, supra note 44, pp. 2.

<sup>53</sup> COM(2003) 20 final, supra note 44, p. 3.

<sup>54</sup> COM(2003) 20 final, supra note 44, pp. 3.

<sup>55</sup> Schneider, M., and Vrins, O., supra note 33, p. 70.

the public interest of the Community. It does not only come with economic losses for law-abiding manufactures, traders and intellectual property right-holders in general, but it also put consumers at risk in terms of health and safety.<sup>56</sup>

### **3.2.2 Aims and objectives of the Regulation**

The portal article to the Regulation read as follows:

‘Article 1

This Regulation sets out the conditions for action by custom 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 in accordance with Article 61 of Council Regulation (EC) No 2913/92 of 12 October 1992 establishing the Community Customs Code;
- (b) When they are found during checks on goods entering or leaving the Community Customs territory in accordance with Article 37 and 183 of the Regulation (EEC) No 2913/92, placed under a suspensive procedure within the meaning of Article 84(1)(a) of that Regulation, in the process of being re-exported subject to notification under Article 182(2) of that Regulation or placed in a free zone or free warehouse within the meaning of Article 166 of that Regulation.’

It provides for two cumulative conditions that have to be fulfilled before customs action could be taken. First, there must be a suspicion that the goods infringe intellectual property rights, and secondly the goods have to fall under one of the customs procedures or status in accordance with the Community Customs Code.

### **3.2.3 Goods infringing intellectual property rights**

Article 2 sets out the definitions for ‘goods infringing an intellectual property right’. These definitions could be divided into three subcategories; the first two are clearly expressed in the article as ‘counterfeit goods’ and ‘pirated goods’. The third category relates to ‘other intellectual property rights’.

These are listed in Article 2(1)(c) and Article 2(3) of the Regulation and are patents, plant variety rights, geographical indications and designations of origin and moulds and matrices. However, these might fall within the scope for application of border measures in this Regulation, but unfortunately outside the scope of this thesis since I will focus on ‘counterfeit goods’ and ‘pirated goods’.

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<sup>56</sup> Recital 2, 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, [OJ L 196, 02.08.2003].

### 3.2.3.1 Counterfeit goods

Article 2(1)(a) stipulates a quite narrow definition of ‘counterfeit goods’. It has to be a trademark that is identical to the validly registered trademark of the same type of goods, or which cannot be distinguished in its essential aspects from such a trademark.

‘Article 2

(1) For the purposes of this Regulation, ‘goods infringing an intellectual property right’ means:

(a) ‘counterfeit goods’, namely:

- i. goods, including packaging, bearing without authorization 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 or the law of the Member State in which the application for action by the customs authorities is made;
- ii. any trademark symbol (including a logo, label, sticker, brochure, instructions for use or guarantee document bearing such a symbol), even if presented separately on the same conditions as the goods referred to in point (i);
- iii. packaging materials bearing the trademarks of counterfeits goods, presented separately, on the same conditions as the goods referred to in point (i);’

A wider scope of protection like the concept of ‘likelihood of confusion on the part of the public’<sup>57</sup> that is found in the Community trademark and also often used in national trademark law is not to be found in the Regulation. According to Schneider and Vrins, has this narrow scope been taken to save the Customs officers from the complex and time consuming task of determining if an infringement of the trademark has occurred or not.<sup>58</sup>

On the other hand, Article 2(1)(a)(i) declare that goods is classified as ‘counterfeit goods’ if it infringes trademark-holder’s rights provided by the Community trade mark law or the national law. But the national law is harmonized by the same particular Regulation on the Community trademark; the criterion ‘likelihood of confusion on the part of the public’ must therefore still be applicable.

Furthermore, the requirement that the trademark must be registered is met, whether it is a national registration or a Community trademark registration. But one has to remember that the trademark must enjoy protection in the Member State where the application is made.<sup>59</sup>

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<sup>57</sup> Article 9(1)(b) Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark [OJ L 11, 14.01.1994].

<sup>58</sup> Schneider, M., and Vrins, O., *supra* note 33, p. 97.

<sup>59</sup> Council Regulation (EC) No 1383/2003, *supra* note 56, Article 2(1)(a).



A common method used by fraudsters is to send trade mark symbols and packaging materials separately and brand them after the goods have entered the Community, and by doing so diversify the risk for customs action.<sup>60</sup> The legislators has tried to tightened the noose further around these fraudsters by including into the concept of ‘counterfeit goods’ packaging materials, logos, labels, stickers, brochures, instructions for use etc. even if they are presented separately.<sup>61</sup>

### 3.2.3.2 Pirated goods

The second category, ‘pirated goods’, is found in Article 2(1)(b) of the Regulation and is defined as follows:

(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, regardless of whether it is registered in national law, or of a person authorized by the right-holder in the country of production 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<sup>62</sup> or the law of the Member State in which the application for customs action is made;

As clearly expressed in the Article are ‘pirated goods’ goods that ‘are or contain’ copies. This is not consistent with the terminology used in other Community legislation protecting intellectual property rights. Instead of ‘copies’ we find the term ‘reproduction’ in the INFOSCO-directive<sup>63</sup> for copyright and neighbouring rights and the description ‘design which does not produce on the informed user a different overall impression’<sup>64</sup> for design. One possible explanation to this inconsistency could be that the legislators want to avoid vague definitions as ‘reproduction’ and ‘design which does not produce on the informed user a different overall impression’ and thereby save the customs from complex legal balance-acts.<sup>65</sup>

Schneider and Vrins consider it as ‘regrettable’ that the legislators haven’t been consistent, instead of leaving room for confusion. They raise the questions ‘does it have to be slavish copies?’ and ‘how must we interpret goods that contain copies?’ These questions are instead left open for the national courts to answer in the light of their practice.<sup>66</sup>

Worst case scenario, according to Schneider and Vrins, could be that a national authority, competent to determine if an infringement is at hand,

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<sup>60</sup> Schneider, M., and Vrins, O., supra note 33, p.98.

<sup>61</sup> Council Regulation (EC) No 1383/2003, supra note 56, Article 2(1)(a).

<sup>62</sup> Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs [OJ L 3, 5.1.2002].

<sup>63</sup> Article 2, Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [OJ L 167, 22.6.2001].

<sup>64</sup> Council Regulation (EC) No 6/2002, supra note 62, Article 10.

<sup>65</sup> Schneider, M., and Vrins, O., supra note 33, p.101.

<sup>66</sup> Schneider, M., and Vrins, O., supra note 33, p.101.

come to the conclusion that an infringement is the case according to national law, but not a ‘copy’ in the sense of the Regulation.<sup>67</sup>

Pirated goods don’t need to be a copy in a material sense. It could be genuinely made, but ‘made without the consent of the holder of a copyright or related right or design right’<sup>68</sup>. Consequently, parallel imported goods falls outside the scope of protection, since it is made with the right-holders consent, but imported without it.

Unlike counterfeit goods, where only validly registered trademarks fall within the scope of protection, is there no requirement of registration for protection against pirated manufacturing. ‘Article 2(1)(b) refers to this as ‘regardless of whether it is registered in national law’. No need for registration does also apply to Community law, for example is the protection for Community designs divided in to short-term protection for ‘unregistered’ designs and a wider long-term protection for ‘registered’ designs.<sup>69</sup>

Finally, the Regulation is only applicable if the right-holder enjoys protection under Community law (for a Community Design) or under ‘the law of the Member State in which the application for customs action is made’.<sup>70</sup>

### **3.2.3.3 Goods excluded from the scope of the Regulation**

Although the Regulation has a wide application certain goods are exempted from its scope. It does not necessarily means that they don’t infringe an intellectual property right, but nevertheless are they exempted from border measures applicable under this Regulation.

As mentioned in the previous chapter, parallel imported goods infringing copyright or related right or design right does not fall within the scope of this Regulation. This is further expressed in Article 3(1) as follows:

‘This Regulation shall not apply to goods bearing a trademark with the consent of the holder of that trademark or to goods bearing a protected designation of origin or a protected geographical indication or which are protected by a patent or a supplementary certificate, by a copyright or related right or by a design right or a plant variety right and which have been manufactured with the consent of the right-holder but are placed in one of the situations referred to in Article 1(1) without the latter’s consent.

It shall similarly not apply to goods referred to in the first subparagraph and which have been manufactured or are protected by another intellectual property right referred to in Article 2(1) under conditions other than those agreed with the right-holder.’

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<sup>67</sup> Schneider, M., and Vrins, O., supra note 33, p.102.

<sup>68</sup> Council Regulation (EC) No 1383/2003, supra note 56, Article 2(1)(b).

<sup>69</sup> Council Regulation (EC) No 6/2002, supra note 62, Article 1, 11 and 12.

<sup>70</sup> Council Regulation (EC) No 1383/2003, supra note 56, Article 2(1)(b).

The first indent excludes parallel imported goods from the scope of border measures. They are manufactured with the consent of the right-holder but are not supposed to be released on the internal Community market.

The second indent means that goods manufactured with the consent of the right-holder but is in conflict with contractual agreements between the right holder and the manufacturer. The typical situation would be goods manufactured under license but does not fulfil requirements regarding for example quality, quantity or territorial limitations.<sup>71</sup>

It could of course be impossible for Customs to determine by just visually examine goods whether it is parallel imported or manufactured and imported with the consent of the right-holder. Neither would it be customs duties to interpret contractual terms and thereby determine if the goods could be put under border measures or not. These are strong reasons to exclude these two categories from the scope of border measures.<sup>72</sup>

### *Personal Baggage*

Finally, Article 3(2) provides for last exemption of goods in traveller's personal baggage:

'Where a traveller's personal baggage contains goods of a non-commercial nature within the limits of the duty-free allowance and there are no material indications to suggest the goods are part of commercial traffic, Member States shall consider such goods to be outside the scope of this Regulation.'

To clarify, personal baggage is not exempted from border measures. In fact, 25 percent of actions taken were related to passenger traffic.<sup>73</sup> Lobbyist, representing right-holders, has stressed the cumulative effect of millions of passengers, and their potentially carrying with them counterfeit or pirated goods, entering the Community every year before the Commission. The Commission's on the other hand that the ratio intervention contra infringing goods per intervention is very low and not a successful method in the fight against counterfeit and pirated goods.<sup>74</sup> Despite the cost-benefit argument that probably would point an economical not justifiable situation, is the national legislators free to introduce measures against private persons luggage that contain counterfeit or pirated goods.<sup>75</sup>

Another economical perspective of Article 3(2) is that it sets out the 'duty free allowance' as a kind of a 'Get Out of Jail Free card'. Border measures

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<sup>71</sup> Schneider, M., and Vrins, O., supra note 33, p. 111.

<sup>72</sup> Schneider, M., and Vrins, O., supra note 33, p. 111.

<sup>73</sup> Report on EU Customs Enforcement of Intellectual Property Rights p.16.

<sup>74</sup> Schneider, M., and Vrins, O., supra note 33, pp. 113.

<sup>75</sup> Schneider, M., and Vrins, O., supra note 33, pp. 114.

are not applicable on infringing goods found in passenger's baggage coming in from a third country if these goods value is limited to EUR 175.<sup>76</sup>

### 3.2.4 Administrative procedures

In Article 5 of Council Regulation No 1383/2003 sets out conditions regarding an applications for customs action. Article 5(4) same Regulation gives the right-holder of a Community trademark and other Communitywide rights a possibility to lodge an application in one Member State and in that application request for action by the customs authorities in one or more Member States.

The Community acceded with effect from 1 October 2004 to the Protocol relating to the Madrid Agreement concerning the international registration of marks adopted at Madrid on 27 June 1989.<sup>77</sup> The effect of this was in *Zino Davidoff SA*<sup>78</sup> referred to the ECJ for a preliminary ruling. The ECJ went against the strict wording of Article 5(4) when interpreting and relied on the intent of the EU legislature. Thereby has the right-holder of an international registration a right to secure actions in all Member States regardless where the application is lodged.<sup>79</sup>

The Regulation sets out two ways of procedure for Customs action against goods suspected to infringe an intellectual property right. The options provided differ in terms of whose initiative action is taken. On the one hand at the initiative of a right-holder filing an application for action and on the other hand the *ex officio* instrument i.e. by initiative from the Custom authorities.

#### 3.2.4.1 Application for enforcement

The enforcement of border measures depends to a large extent on the right-holders initiative and his interest to defend the exclusive rights conferred to an intellectual property right.<sup>80</sup> Filing of an application presumes that the right-holder have got some trustworthy indications that a cargo of goods suspected of infringing intellectual property rights is about to be placed in one of the situations referred to in Article 1(1). It is of high importance that as detailed information as possible is filed in the application for a successful crackdown.<sup>81</sup> This include, defining the type of infringement, copyright or neighbouring right, design right, patent etc. Furthermore, filing fact about

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<sup>76</sup>Article 1, Council Directive 94/4/EC of 14 February 1994 amending Directives 69/169/EEC and 77/388/EEC and increasing the level of allowances for travellers from third countries and the limits on tax-free purchases in intra-Community travel [OJ L 60, 03.03.1994].

<sup>77</sup> Council Decision 2003/793/EC of 27 October 2003 [OJ L 296, 14.11.2003].

<sup>78</sup> C-302/08 *Zino Davidoff SA* ECR [2009] I-0000

<sup>79</sup> *Ibid.*

<sup>80</sup> Daele, K., *Regulation 1383/2003: A new step in the fight against counterfeit and pirated goods at the borders of the European Union*, European Intellectual Property Review, 2004, issue 5, p. 217.

<sup>81</sup> Schneider, M., and Vrins, O., *supra* note 33, p. 115.

the authentic goods including photos and in what sense does the fraud intrude the protected rights.<sup>82</sup>

Since more is better, is it as far as possible, helpful if the application also includes information regarding country of production, routes used by traffickers, technical specifications that differentiates the authentic and suspected goods and any other information that could be of use for the customs authorities to make a successful crackdown possible.<sup>83</sup>

Except from mandatory contact details for the applicant followed by an attest granting that the applicant holds the right for the goods in question within the meaning of article 2(2) that defines 'right-holder'. An application should also be accompanied by a declaration that the right-holder accepts liability according to the situations referred to in Article 6 of the Regulation. This means that the right-holder accepts liability towards the persons who's goods has been put under Customs detention and a procedure initiated that cannot be completed due to an act or omission by the right-holder or in the case where the detained goods were found not infringing any intellectual property rights. The right-holder is also liable to bear any costs incurred in keeping those goods under customs control.<sup>84</sup>

### 3.2.4.2 *Ex officio*

Article 4 of the Regulation entitles the customs authorities to act *ex officio* and take action in one of the situations referred to in Article 1(1). However, this requires that the customs authorities 'have sufficient grounds for suspecting that the goods infringe an intellectual property right'.<sup>85</sup> Normally an *ex officio* procedure begins with suspicious findings during routine checks. To facilitate the work for the customs authorities official databases are used, providing information about the protected goods and contact details to their right-holders.<sup>86</sup> It is of utmost importance that customs authorities are up to date through contact with Intellectual Property Offices and especially through contact with right-holders and their representatives.<sup>87</sup>

If suspicious cargos are found, customs authorities may suspend or detain goods for a period of three working days. This period, albeit it is short, is for the right-holder to lodge an application for further actions.<sup>88</sup>

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<sup>82</sup> Intellectual Property Rights – Manual for lodging of applications for customs action p. 23, [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/counterefeit\\_piracy/right\\_holders/manual\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterefeit_piracy/right_holders/manual_en.pdf).

<sup>83</sup> Ibid.

<sup>84</sup> Council Regulation (EC) No 1383/2003, supra note 56, Article 6.

<sup>85</sup> Council Regulation (EC) No 1383/2003, supra note 56, Article 4.

<sup>86</sup> Schneider, M., and Vrins, O., supra note 33, p. 116.

<sup>87</sup> Lorraine Sauvy, *Tullverkets arbete med varumärkesintrång*, Brandnews 2/2009 p.8-13.

<sup>88</sup> Council Regulation (EC) No 1383/2003, supra note 56, Article 4.

The custom authorities are not obliged to act *ex officio* but appreciated by the right-holders if they do. In some situations are right-holders not aware of when, where and how, consignments with counterfeit goods are entering or leaving the Community. It is then of great value for the right-holders to be able to rely on the customs authorities *ex officio* interventions.<sup>89</sup>

Three days might not be much in a right-holder perspective, but this has to be weighed towards such serious delay in the transportation route it causes for the counterpart. In practice, another day or two will be added because the three days start to count when the right-holder have been able to give a receipt of notification of an interception. Informal talks between custom authorities and right-holders before and during the interception do not start the clock.<sup>90</sup>

As mentioned in an earlier chapter, the implementation of the Regulation allowed for an increased use of the *ex officio* procedure. By lowering the needed degree of suspicion, allowing the customs authorities to take actions, from ‘it appears evident’<sup>91</sup> to the weaker ‘have sufficient grounds for suspecting’<sup>92</sup> that the goods are infringing intellectual property rights.

### **3.2.4.3 Simplified procedure**

Article 11 of the Regulation introduced the option for the member states to adopt a simplified procedure. This means that if the customs authorities detain or suspend the release of goods suspected of infringing an intellectual property right after communicated this for an opinion from the right holder and assuming that the declarant or the owner of the goods do not oppose, are allowed to destroy the goods.

This procedure certainly simplifies since if not adopted by the member state then goods can only be destroyed on basis of a court decision.<sup>93</sup> Many states have adopted the simplified procedure, nevertheless it is an effective tool and there is a pressure from the right holders for more member states to follow their neighbours’ initiative.<sup>94</sup>

Article 16 provides that goods found to infringe an intellectual property right shall at the end of the procedure according to Article 9 not:

- Allowed to enter the EU customs territory
- Released for free circulation
- Removed from the Community customs territory
- Exported
- Re-exported
- Placed under a suspensive procedure or

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<sup>89</sup> Schneider, M., and Vrins, O., *supra* note 33, p.116.

<sup>90</sup> Schneider, M., and Vrins, O., *supra* note 33, pp. 117.

<sup>91</sup> Council Regulation (EC) No 3295/94, *supra* note 42, Article 4.

<sup>92</sup> Council Regulation (EC) No 1383/2003, *supra* note 56, Article 4.

<sup>93</sup> Vanessa Marsland, *EU legislation and the fight against counterfeiting*, World Trademark Review, March/April 2008 p. 56.

<sup>94</sup> *Ibid.*

- Placed in a free zone or free warehouse.

# 4 Counterfeit goods in transit

## 4.1 Territorial principle

Intellectual property rights are an international and globalized judicial area, especially those conferred to copyright, patents and trademarks. It is desirable to protect a brilliant invention with a patent registered in more than one country and enjoy a wide protection for a well renowned trademark.<sup>95</sup> Often is a wide range of national and international intellectual property rights conferred to the same proprietor. This cross-border perspective creates a very vibrant and dynamic world for intellectual property rights.<sup>96</sup> Nevertheless, a vibrant and dynamic world is, unfortunately, seldom spotless, thus it cause problems reaching counterfeit goods in transit in the European Union and its Member States.<sup>97</sup>

The legal boundaries of intellectual property rights are generally bound to a nation's territorial border. Achieving a right in more than one country requires generally an application for registration in each respective country. Accordingly, intellectual property rights are territorially limited.<sup>98</sup> For example, the Swedish intellectual property laws does not enjoy jurisdiction against infringements taking place outside the Swedish territory unless the protected item/product is imported and brought in to the Swedish territory.<sup>99</sup>

However, this territorial principle is in a sense no longer absolute considering Community legislation regarding trademarks, designs and plant variety rights.<sup>100</sup> Most interesting in this thesis is Council Regulation (EC) No 207/2009 on the Community trade mark<sup>101</sup> and its predecessor Council Regulation (EC) No 40/94 on the Community trade mark from 1993<sup>102</sup>. Council Regulations are binding in its entirety and directly applicable in every Member State.

The implementation of the Directives into national legislation harmonizes the rules but does not expand the territorial border for the rights conferred in that Member State's legislation. However, the legislation regarding Community trademarks and designs are stipulated in Regulations. Thereby, the territorial border extends to the whole Community.

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<sup>95</sup> Bernitz/Karnell/Pehrson/Sandgren, *Immaterialrätt och otillbörlig konkurrens*, 11th edition, p.10.

<sup>96</sup> *Ibid.*

<sup>97</sup> Vrins, O., *Counterfeiting perspectives – Protecting fortress Europe*, World Trademark Review, December/January 2010, p. 39.

<sup>98</sup> Bernitz/Karnell/Pehrson/Sandgren, *supra* note 95, p.10.

<sup>99</sup> *Ibid.*, *supra* note 95, p.10.

<sup>100</sup> *Ibid.*, *supra* note 95, p.11.

<sup>101</sup> Council Regulation (EC) No 207/2009 of the 26 February 2009 on the Community trade mark [OJ L 78, 24.3.2009].

<sup>102</sup> Council Regulation (EC) No 40/94, *supra* note 57.



Dissimilarities in Member State's national legislations on intellectual property rights cause problems like distorted competition and trouble to reach counterfeit and pirated goods in transit. For example, issuing an order prohibiting the defendant from proceeding requires under the Swedish Trademark Law that the proprietor can prove that a 'probable cause' exist for an infringement.<sup>103</sup> Meanwhile Council Regulation (EC) No 207/2009 on the Community trade mark provides that a threatening infringement is enough to issue an order prohibiting the defendant from proceeding with the act.<sup>104</sup>

## 4.2 EU case law

### 4.2.1 C-383/98 Polo Lauren

Background: a shipment of counterfeit Polo Ralph Lauren T-shirts in transit from Indonesia to Poland was seized by Austrian customs.

Question referred was whether Council Regulation (EC) No 3295/94 is applicable to situations in which goods in the course of transit between two countries not belonging to the European Community are temporarily detained by customs authorities, on the request from a right holder from a non-member country. This was answered affirmative with reference made to Article 1(1)(a) of Council Regulation (EC) No 3295/94 which refers to situations where goods are placed under a 'suspensive procedure' within the meaning of Article 84(1)(a) of the Community Customs Code. Under this latter provision, a 'suspensive procedure' includes inter alia external transit, meaning 'a customs procedure allowing the movement of non-Community goods from one point to another within the customs territory of the Community without those goods being subject to import duties or other charges under the Community Customs Code'.<sup>105</sup>

'After all, the external transit of non-Community goods is not completely devoid of effect on the internal market. It is, in fact, based on a legal fiction. Goods placed under this procedure are subject neither to the corresponding import duties nor to the other measures of commercial policy. It is as if they had not entered Community territory. In reality, they are imported from a non-member country and pass through one or more Member States before being exported to another non-member country. This operation is all the more liable to have a direct effect on the internal market as there is a risk that counterfeit goods placed under the external transit procedure may be fraudulently brought on to the Community market, as several Governments pointed out in their written observations and at the hearing.'<sup>106</sup>

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<sup>103</sup> 37 b § Varumärkeslagen (1960:644)

<sup>104</sup> Council Regulation (EC) No 207/2009, supra note 101, Article 102(1).

<sup>105</sup> Paragraph 26, C-383/98 *Polo/Lauren* [2000] ECR I-02519.

<sup>106</sup> *Ibid*, paragraph 34.

## 4.2.2 C-60/02 Rolex

Background: Criminal proceedings, counterfeit goods originated in a third country (but also goods from a Member State) detained by Austrian customs.

The national court asked for a preliminary ruling whether a provision of national law did not prohibit the mere transit of goods manufactured/distributed in contravention of provisions of the law of trademarks would it then be contrary to Article 2 of Council Regulation No 3295/94. The national court also referred to the findings from the ECJ in Case C-383/98 Polo/Lauren, since that judgement was given in a civil case the national court were uncertain whether the same reasoning was applicable in criminal law when no criminal offence had been committed under national law.

The ECJ reiterated the findings in Polo/Lauren meaning that Council Regulation No 3295/94 applies in a situation where goods in transit between two non-member countries are detained by customs in a Member State.<sup>107</sup> Furthermore, the interpretation of the scope of that Regulation was not conditional upon the type of national proceedings in which that interpretation relied on.<sup>108</sup> The Court also held that it was not within their jurisdiction to rule on the interpretation of national law but that Articles in the Regulation would preclude national provisions.<sup>109</sup>

## 4.2.3 C-115/02 Rioglass

Background: Rioglass manufacturers and sells windows and windscreens for cars. A consignment of windows and windscreens lawfully manufactured in Spain where detained by the French customs while in transit to Poland.

The national court referred a question to the ECJ whether Article 28 TEC<sup>110</sup> is to be interpreted as meaning that it precludes custom authorities to, based on national provisions, detain goods in transit that is lawfully manufactured in another Member State of the European Community and are intended to be placed on the market in a non-Member State.<sup>111</sup>

The Court first noted that the fact that goods are intended for export to a non-Member State does not necessarily mean that goods in a situation like this falls outside the scope of the TEC provisions on the free movement of

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<sup>107</sup> Paragraph 54, C-60/02 *Rolex* [2004] ECR I-00651.

<sup>108</sup> *Ibid*, paragraph 56.

<sup>109</sup> *Ibid*, paragraph 58.

<sup>110</sup> Article 28 respectively 30 of the Treaty establishing the European Community referred to below are replaced by Article 34 respectively 36 of the Treaty on the Functioning of the European Union.

<sup>111</sup> Paragraph 10, C-115/02 *Rioglass* [2003] ECR I-12705.

goods between Member States within the meaning of Article 28 and 30 TEC that allows for derogations from this fundamental principle.<sup>112</sup>

In answering the question, the ECJ referred to settled case law that the specific subject matter of a trademark is mainly to guarantee the proprietor an exclusive right to use that mark when putting his product on the market. Thus, protection is linked to the marketing of the product/goods.<sup>113</sup>

‘Transit, such as that in issue in the main proceedings, which consists in transporting goods lawfully manufactured in a Member State to a non-member country by passing through one or more Member States, does not involve any marketing of the goods in question and is therefore not liable to infringe the specific subject-matter of the trade mark.’<sup>114</sup>

The Court held that regardless whether the final destination of the goods in transit is a non-Member State or a Member State, since the nature of the transit procedure by definition does not constitute a placing on the market.<sup>115</sup> Thus, a custom detention such as at issue cannot be justified on the ground of protection of industrial and commercial property within the meaning of Article 30 TEC.<sup>116</sup>

Article 28 TEC precludes the implementation of a provision, pursuant to a legislative measure of a Member State concerning intellectual property, of procedures that allow the customs authorities to detain goods in transit, which is lawfully manufactured in another Member State, which is intended for a non-Member State where the goods will be put on the market.<sup>117</sup>

#### **4.2.4 C-405/03 Class International**

Background: A container load of original toothpaste products bearing the trademark AQUAFRESH was brought into the European Community from South Africa at the port of Rotterdam. The goods had not yet any designated destination and were stored by Class International, owner of the goods, in a warehouse in Rotterdam.

Several questions were referred to the ECJ for a preliminary ruling regarding goods under the external transit procedure;

*Whether the trademark proprietor may prevent the introduction into the Community, under the external transit procedure or the customs warehousing procedure, of original goods bearing the trademark*

Should the opening words of Article 5(1) in conjunction with Article 5(3)(c) of Council Directive 89/104 and of the words of Article 9(1) in conjunction

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<sup>112</sup> Ibid, paragraph 20.

<sup>113</sup> Ibid, paragraph 25-26.

<sup>114</sup> Ibid, paragraph 27.

<sup>115</sup> Ibid, paragraph 28.

<sup>116</sup> Ibid, paragraph 29.

<sup>117</sup> Ibid, paragraph 29.

with Article 9(2)(c) of Council Regulation No 40/94 be interpreted as that the trademark proprietor may prevent the introduction into the Community, under the external transit procedure or the customs warehousing procedure, of original goods bearing that trademark which had not already been put on the market in the Community previously by that right holder or with his consent.

‘Importing’ within the meaning of Article 5(3)(c) of Council Directive and Article 9(2)(c) of Council Regulation No 40/94, which the trademark proprietor may oppose in so far as it entails ‘using in the course of trade’ within the meaning of Article 5(1) of Council Directive 89/104 and Article 9(1) of Council Regulation No 40/94 requires introduction of those goods into the Community for the purposes of putting them on the market therein. This conclusion is derived from Article 24 Treaty Establishing the European Community, which provides that putting goods, coming from a third country, on the market shall be considered as being, put in free circulation in a Member State if the import formalities have been complied with.<sup>118</sup>

However, the entry of non-Community goods placed under external transit procedure or customs warehousing procedure is distinguishable from placing them under the procedure of release for free circulation which is a requirement for putting goods on the market. Thus, several options of customs procedures are available for traders who bring goods into the Community customs territory. Furthermore, goods may be assigned, at any time, another customs-approved treatment or use. Therefore, as long as the custom procedure for free circulation is not chosen, and the requirements for any other customs-approved treatment or use is fulfilled, the mere introduction of the goods into the community is not ‘importing’ within the meaning of Article 5(3)(c) of Council Directive 89/104 and Article 9(2)(c) of Council Regulation No 40/94 and does not entail ‘using in the course of trade’ within the meaning of Article 5(1) and Article 9(1) of Council Directive 89/104 respectively Council Regulation No 40/94.<sup>119</sup>

*Whether the trademark proprietor may prohibit the offering for sale or the sale of original products placed under the external transit procedure or the customs warehousing procedure.*

Does ‘offering’ and ‘putting on the market’ goods within the meaning of Article 5(3)(b) of Council Directive 89/104 and Article 9(2)(b) of Council Regulation No 40/94 could include, respectively, offering and selling original goods bearing a trade mark and having the customs status of non-Community goods, when the offering is made and/or the sale is effected while the goods are placed under the external transit procedure or the customs warehousing procedure? Moreover, if so, under what circumstances could the trademark proprietor oppose such offering or sale?

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<sup>118</sup> Paragraph 28, C-405/03 *Class International* [2005] ECR I-08735

<sup>119</sup> *Ibid.*, paragraph 42-44.

The Court held that, first, non-Community goods placed under the external transit procedure or the customs warehousing procedure are not regarded as 'imported' but could still be the subject of offering for sale or sales to a third country.<sup>120</sup>

A mere risk that the goods will be put on the Community market, cannot be presumed merely by virtue of the fact that the owner of the goods, the addressee of the offer or the purchaser engage in parallel trade. The trademark proprietor may only oppose the offering or the sale of such non-Community goods if it necessarily entails that the goods will be put on the Community market.<sup>121</sup>

Finally, the Court stated that it is for the trademark proprietor to prove the facts which would give grounds for exercising the right of prohibition provided for in Article 5(3)(b) and (c) of Council Directive 89/104 respectively of Article 9(2)(b) and (c) of Council Regulation No 40/94, by proving either release for free circulation of the non-Community goods bearing his mark or an offering or sale of the goods which necessarily entails their being put on the market.<sup>122</sup>

#### **4.2.5 C-281/05 Montex**

Background: Montex, a jeans manufacturer, which exported pieces of jeans including the distinctive mark 'DIESEL' to Poland, where these pieces were sewn together and brought back to Ireland as complete jeans. A Hungarian company arranged the transport from Poland via Germany with the final destination in Ireland. German Customs authorities detained the consignment intended to be put under uninterrupted transit from the Polish customs office to the customs office in Dublin.

The national court referred the following questions to the ECJ for a preliminary ruling:

'First, is Article 5(1) and (3) of Directive 89/104 to be interpreted as meaning that a trade mark give the proprietor a right to prohibit the mere transit of goods manufactured in a third country, and bearing a mark identical with its trade mark, through the territory of a Member State in which that trade mark enjoys protection, where the final destination of the goods is a Member State in which the trade mark does not enjoys protection?'<sup>123</sup>

The Court answered, after reaffirmed what was held in *Polo/Lauren*, *Rioglass* and *Class International*, that;

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<sup>120</sup> Ibid, paragraph 55.

<sup>121</sup> Ibid, paragraph 61.

<sup>122</sup> Ibid, paragraph 75.

<sup>123</sup> Paragraph 15, C-281/05 *Montex* [2006] ECR I-10881.

‘Article 5(1) and (3) is to be interpreted as meaning that the proprietor of a trade mark can prohibit the transit through a Member State in which that mark is protected of goods bearing the trade mark and placed under the external transit procedure, whose destination is another Member State where the mark is not so 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 their being put on the market in that Member State of transit.’<sup>124</sup>

The proprietor of the trademark ‘DIESEL’ submitted that a mere risk of the goods not reaching their destination, namely a Member State where the trademark is not registered, and that the goods could theoretically be put on the market fraudulently in Germany, is enough considered transit of goods as an infringing activity on the fundamental functions conferred to the trademark in Germany.<sup>125</sup> The Court did not accept such argument with reference to the above-cited conclusion and agreed with the Advocate General’s conclusion that it would have as a result that every external transit of goods bearing the trademark would have to be regarded as use of the mark in the course of trade within the meaning of Article 5(1) and (3) of Council Directive 89/104.<sup>126</sup>

Secondly, it was questioned whether it was relevant answering the first question, if goods were manufactured in accordance with, or in infringement of, the rights conferred to a proprietor in the State where the manufacturing took place.<sup>127</sup>

The Court noted in its answer that ‘Diesel’, the German Government and the European Commission considered that any transit, including external transit, of goods manufactured in a third country in infringement of the rights conferred to the proprietor of the trademark, could be opposed by the proprietor. The Court did not accept that argument by referring to the answer of the first question and reaffirming that the interpretation of Article 5(1) and (3) of Council Directive 89/104 has not been affected by the findings in case C-60/02 *Rolex* as ‘Diesel’ claimed.<sup>128</sup>

Followed by this the Court stated, first of all, that Article 1 of Council Regulation No 3295/94 sets out conditions under which customs authorities is mandated to take action against goods suspected of being counterfeit goods. Secondly, Article 1 of Council Regulation No 3295/94 lays down the measures available for the competent customs authorities with regard to counterfeit goods. And finally, the second and the third recitals of Council Regulation No 3295/94 refers expressly to the marketing, or to the placing on the market, of counterfeit goods and the need to prohibit the release of such goods for free circulation in the Community.<sup>129</sup>

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<sup>124</sup> Ibid, paragraph 23 and 27.

<sup>125</sup> Ibid, paragraph 24.

<sup>126</sup> Ibid, paragraph 25.

<sup>127</sup> Ibid, paragraph 33.

<sup>128</sup> Ibid, paragraph 33-34.

<sup>129</sup> Ibid, paragraph 37-39.

Ultimately, the Court concluded from this reasoning that none of the provisions in Council Regulation No 3295/94 introduces a new criterion to determine if there has been an infringement of trademark law or to determine if there has been a use of the mark that is prohibited by such law. It is in principle irrelevant if goods, whose destination is a Member State, been manufactured in the country of origin lawfully or in infringement of the rights conferred the proprietor of that trademark in that country.<sup>130</sup>

## 4.2.6 Pending cases before the ECJ

The two pending cases, *C-495/09 Nokia v. HMRC* and *C-446/09 Philips*, before the ECJ will hopefully shed some light on the utmost outstanding issues regarding the application of Community legislation related to counterfeit goods put under the transit procedure. The questions referred read as follow;

‘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(1)(a) of Regulation 1383/2003/EC if there is no evidence to suggest that those goods will be put on the market in the EC, either in conformity with a customs procedure or by means of an illicit diversion.’<sup>131</sup>

‘Does Article 6(2)(b) of Regulation (EC) No 3295/94 (1) of 22 December 1994 (the old Customs Regulation) constitute a uniform rule of Community law which must be taken into account by the court of the Member State which, in accordance with Article 7 of the Regulation, 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?’<sup>132</sup>

At the time of submission of this thesis, late August 2010, had no opinions from the Advocate General published. These are expected in September 2010.

## 4.2.7 Summary of the ECJ case law

- Council Regulation (EC) No 3295/94 is applicable when goods in transit between two non-Member States is temporarily detained by customs in a Member State (Polo/Lauren)
- ‘After all, the external transit of non-Community goods is not completely devoid of effect on the internal market. It is, in fact, based on a legal fiction. Goods placed under this procedure are subject neither to the corresponding import duties nor to the other measures of commercial policy. It is as if they had not entered Community territory. In reality, they are imported from a non-

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<sup>130</sup> Ibid, paragraph 40-41.

<sup>131</sup> *C-495/09 Nokia v. HMRC* [OJ C 37, 13.2.2010].

<sup>132</sup> *C-446/09 Philips* [OJ C 24, 30.1.2010].

member country and pass through one or more Member States before being exported to another non-member country. This operation is all the more liable to have a direct effect on the internal market as there is a risk that counterfeit goods placed under the external transit procedure may be fraudulently brought on to the Community market, as several Governments pointed out in their written observations and at the hearing'.<sup>133</sup> (*Polo Lauren*)

- The ECJ reiterated the finding in *Polo/Lauren* that Council Regulation (EC) No 3295/94 is applicable when goods in transit between two non-Member States are temporarily detained by customs in a Member State. (*Rolex*)
- 'Transit such as that in issue in the main proceedings, which consists in transporting goods lawfully manufactured in a Member State to a non-member country by passing through one or more Member States, does not involve any marketing of the goods in question and is therefore not liable to infringe the specific subject-matter of the trade mark.'<sup>134</sup> (*Rioglass*)
- Regardless whether the final destination of the goods in transit is a non-Member State or a Member State, since the nature of the transit procedure by definition does not constitute a placing on the market.<sup>135</sup> Thus, a custom detention such as at issue in this case cannot be justified on the ground of protection of industrial and commercial property within the meaning of Article 30 of the TEC.<sup>136</sup> (*Rioglass*)
- The presence of goods in a member state for the purpose of transit does not constitute 'importing' or 'using in the course of trade' under Article 5(1) of the First Trademark Directive (89/104/EEC), or 'offering' or 'putting on the market' within the meaning of Article 5(3)(b) of that Directive. (*Class International*)
- A right holder of a trademark cannot oppose the mere entry into the Community, under the external transit procedure. (*Class International*)
- If the right holder call for actions from the Customs authority to intervene, he has either to prove that the actual goods has been placed in free circulation or the offering or sale of the goods will unconditionally entails the putting of these goods on the Community market. (*Class International*)

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<sup>133</sup> C-383/98 *Polo/Lauren*, supra note 105, paragraph 34.

<sup>134</sup> C-115/02 *Rioglass*, supra note 110, paragraph 27.

<sup>135</sup> *Ibid*, supra note 110, paragraph 28.

<sup>136</sup> *Ibid*, supra note 110, paragraph 29.



- Article 5(1) and (3) of Directive 89/104 is to be interpreted as meaning that the proprietor of a trade mark can prohibit the transit through a Member State in which that mark is protected of goods bearing the trade mark and placed under the external transit procedure, whose destination is another Member State where the mark is not so 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 their being put on the market in that Member State of transit. (*Montex*)
- None of the provisions in Council Regulation No 3295/94 introduces a new criterion to determine if there has been an infringement of trademark law. (*Montex*)
- It is in principle irrelevant, whether goods whose destination is a Member State, have been manufactured in the country of origin lawfully or in infringement of the rights conferred the proprietor of that trademark in that country. (*Montex*)

### 4.3 National case law and legislation

This chapter is a comparative study, based on national case law and legislation, of the application of Council Regulation 1383/2003 in three Member States. I have limited this study to Finland, the Netherlands and Sweden. Reason for these particular Member States is that Finland has a trademark law that also target goods in transit, the Netherlands has been at the forefront interpreting Council Regulation (EC) No 1383/2003 and its predecessors in a broad sense and thus reach goods infringing intellectual property rights put under customs transit procedure. Finally, I have chosen to examine the legal situation on counterfeit goods in Sweden due to an interesting case that came before the Swedish District Court while writing this thesis.

#### 4.3.1 The Netherlands

The District Court of The Hague did in *Sisvel SpA v Sosecal* a thorough review of Dutch case law where the doctrine of ‘manufacturing fiction’ has applied.<sup>137</sup> Important to note is that these cases relates to the time before *Montex*.<sup>138</sup> A reference was made to *Philips/Princo*<sup>139</sup> where the Supreme Court of the Netherlands ruled ‘from the opening words and of Art. 6(2)(b) of Council Regulation (EC) No 1383/2003, it follows that, when the question of infringement is being assessed, goods which are in a situation as referred to in Article 1(1)(a) are to be seen, by way of fiction, as goods

<sup>137</sup> The District Court of The Hague, *Sisvel SpA v Sosecal* (311378/KG ZA 08-617, July 18 2008).

<sup>138</sup> C-281/05 *Montex*, supra note 123.

<sup>139</sup> Supreme Court of the Netherlands (Hoge Raad der Nederlanden), *Philips/Princo*, (LJN AO 0903 19 March 2004)

manufactured in the Netherlands’<sup>140</sup>. Thus, if Dutch customs detain goods placed under a suspensive customs procedure such as transit, shall goods be assimilated with goods manufactured in the Netherlands in determine if it infringes intellectual property rights, and thereby granting the proprietor its exclusive rights.

Dutch courts, according to the case review in *Sisvel SpA v Sosecal*, have continued to assert the ‘manufacturing fiction’ under Council Regulation (EC) No 1383/2003. The District Court of the Hague ruled in *Philips/Princo*<sup>141</sup> that the ‘manufacturing fiction’ applies in Council Regulation No 1383/2003 provided that recital 8 is read in conjunction with Article 10. This was confirmed by the President of the District Court of the Hague in *BenQ Europe/Sisvel and the State*.<sup>142</sup>

Followed by this review, the District Court of Hague concluded that the ‘manufacturing fiction’ still applies, under the new Regulation as well, and consequently Sosecal infringed patent law of the Netherlands. In finding this conclusion the Court first stressed that the questions referred to the ECJ in *Montex*-case did not regard article 6(2)(b) Council Regulation (EC) No 3295 but related to the First Trademark Directive 89/104. Secondly, the District Court of Hague could not find any indications in *Montex* that repealed the conclusions held in prior judgments, such as *Rolex* and *Polo/Lauren*. Finally, the Court referred to a communication from the Commission regarding Customs response to the latest trends in counterfeiting and piracy where the Commission states that Customs have powers to ‘stop suspected fakes during import, export, transit or transshipment’ and ‘especially during transshipment, customs protect not only the EU but also other parts of the world’.<sup>143</sup>

### 4.3.2 Finland

Section 4(1) of the Finnish Trademarks Act (7/1964) stipulates the rights conferred to a proprietor of a trademark and it reads;

‘The effect of the rights in a trade symbol provided for in sections 1 to 3 of this Act is that no one other than the proprietor of the trade symbol may use in his business any symbol liable to be confused with it for his goods, whether on the goods themselves or on their packaging, in advertising or commercial documents, or in any other way, including oral use. This provision shall apply regardless of whether the goods are offered or intended to be offered for sale in Finland or abroad, or are imported into the Finnish territory to be used, kept or stored for business purposes or to be forwarded to a third country.’<sup>144</sup>

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<sup>140</sup> Authors translation/interpretation using Google translate.

<sup>141</sup> The District Court of the Hauge *Philips/Princo* (02/2947 13 July 2005)

<sup>142</sup> The District Court of The Hague *BenQ Europe/Sisvel and the State* (B9 1823 March 24, 2006)

<sup>143</sup> Ibid; COM (2005) 479 final, Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on a Customs response to the latest trends in counterfeiting and piracy, (Brussels, 11.10.2005)

<sup>144</sup> Trademarks Act (7/1964; amendments up to 56/2000 included) Unofficial translation <http://www.finlex.fi/sv/laki/kaannokset/1964/en19640007.pdf>

The last sentence provides the proprietor of a trademark with a right to oppose any unauthorized use of the trademark in Finland, including goods in transit. This provision has been enforced on goods in transit through Finland. In *Adidas-Salomon AG v. A*<sup>145</sup>, a consignment of counterfeited shoes (infringing the Adidas trademark) originating in China, were detained while in transit through Finland to Russia. Helsinki Court of Appeal upheld the District Court decision, which concluded that goods put under the customs warehouse procedure did constitute a ‘use in the course of trade’. Helsinki Court of Appeal also stated that the grounds in this case was different to the grounds in *Montex* since the unloading in a customs warehouse constituted a risk of goods leaking out to the market, while the goods in *Montex* were intact due to a customs seal procedure. The Finnish Supreme Court refused to leave appeal.<sup>146</sup>

This was later confirmed by Helsinki Court of Appeal in *adidas International Marketing BV and adidas AG v. Intemar Simanto Nahmias* where the Court held that goods under any customs procedure bearing a trademark should be regarded as a ‘use’ of the trademark.

### 4.3.3 Sweden

Most recently, in *Panasonic Corporation/Oy Tavatur Shipping Ltd*<sup>147</sup> were Swedish Customs had detained counterfeit batteries, originating in China, while in transit to Finland. The question before the District Court of Stockholm was whether a forwarding agent, acting as an intermediary, could be liable for counterfeit goods. In answering this, the Court did a review of case law from the ECJ. By referring to in particular *HAG II*<sup>148</sup>, *Class International*<sup>149</sup> and *Montex*<sup>150</sup> they found that as long as the requirements for the external transit procedure is fulfilled, is the mere introduction of the goods into the community not ‘importing’ or ‘using in the course of trade’ (Class International). Especially the specific subject matter of the trademark has to be taken into account as referred to in *HAG II*. Finally, the Court concluded that the decisive factor is the marketing of the goods, meaning that goods in transit can only infringe a certain trademark if it necessarily entails the goods are put on the market in the Member State of transit. Moreover, as regards the burden of proof, it is for the trademark proprietor to prove the facts, which would give grounds for exercising rights conferred to his trademark. (Montex).<sup>151</sup>

Although ‘manufacturing fiction’ was not pleaded, the reasoning from the Court is in my view an indication that ‘manufacturing fiction’ is not

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<sup>145</sup> Helsinki Court of Appeal *Adidas-Salomon AG v. A*, HeIHO 2006:20, October 5, 2006.

<sup>146</sup> Ibid.

<sup>147</sup> The District Court of Stockholm, *Panasonic/Tavatur*, T-13838-08, April 14, 2010

<sup>148</sup> C-10/89 *HAG II* [1990] ECR p. I-03711, in particular paragraph 14.

<sup>149</sup> C-405/03 *Class International*, supra note 118, particular paragraph 38 and 44.

<sup>150</sup> C-281/05 *Montex*, supra note 123, particular paragraph 19-26.

<sup>151</sup> *Panasonic/Tavatur*, supra note 147.

applicable in its wider interpretation. The case has been appealed and granted leave to appeal by the Court of Appeal.<sup>152</sup>

However, with *Panasonic Corporation/Oy Tavatur Shipping Ltd* in mind when reading the wording of the Swedish Trademarks act (1960:644) section 4, which read below, and findings of Svea Court of Appeal in the previous case *Nokia Corp. v. Joacim Wärdell* a different interpretation is to be found;

‘The right in a trade symbol granted under Articles 1 to 3 shall imply that no person other than the owner is entitled to use, in the course of business activities, a symbol which is confusingly similar to the protected one for his goods, whether on the goods or on their packages, in advertising or on business documents or in any other way, including also oral use thereof. This shall apply regardless of whether the goods are offered for sale or intended to be offered for sale in this country or abroad or are imported here<sup>153</sup>. Where the right in a symbol is based on Article 2 and the symbol has not been established on the market in the entire country, the right is valid only in the territory where it is established on the market.’<sup>154</sup>

In *Nokia Corp. v. Joacim Wärdell* before Svea Court of Appeal it was questioned whether Wärdell infringed the trademark of Nokia Corp by importing stickers with the trademark of Nokia Corp printed on. The Court first held that Article 9(1) and 9(2)(c) Council Regulation (EC) No 40/94 on Community Trade Marks entails the proprietor of a Community Trade Mark an exclusive right and a right to oppose a third party to ‘import’ goods bearing that trade mark.<sup>155</sup>

Wärdell argued that the imported goods were not ‘introduced’ into Sweden in the meaning of section 4 of the Swedish Trademarks act since they were not released for ‘free circulation’. The Court held that ‘free circulation’ is just a customs procedure and thus does not affect whether the goods has been ‘introduced’ in Sweden. By referring to the preparatory work of the Swedish Trademarks Act were no detailed comments regarding ‘introduced here’ is to be found the Court concluded that the meaning cannot be other than that the goods is transferred across the border into Swedish territory. Consequently, the imported stickers were found to infringe the rights conferred to the proprietor of the Nokia-trademark.<sup>156</sup> Consequently, Svea Court of Appeal applied a strict interpretation of the territoriality principle.

## 4.4 Manufacturing fiction

One outstanding issue regarding the interpretation of the three succeeding Council Regulations of border measures on goods infringing intellectual

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<sup>152</sup> Svea Court of Appeal, *Panasonic/Tavatur*, T-4156-10, June 23, 2010.

<sup>153</sup> The wording found in the Swedish Trademarks act is ‘hit införs’ meaning ‘introduced here’. The direct translation of ‘imported’ would be ‘importerad’.

<sup>154</sup> 4 § Varumärkeslag (1960:644) unofficial translation published on the WIPO website, [http://www.wipo.int/clea/en/text\\_html.jsp?lang=EN&id=3621](http://www.wipo.int/clea/en/text_html.jsp?lang=EN&id=3621)

<sup>155</sup> Svea Court of Appeal, case T-7842-03.

<sup>156</sup> *Ibid.*

property rights has divided scholars and national courts in two directions. Article 6(2)(b) of Council Regulation (EC) No 3295/94 introduced a provision with the conditions for national authorities, in particular customs authorities and national courts, to apply when determine if goods infringe intellectual property rights. In the legal debate is this referred to as ‘manufacturing fiction’.<sup>157</sup> Article 6(2)(b) of Council Regulation (EC) No 3295/94 reads;

‘...’

2. The law in force in the Member State within the territory of which the goods are placed in one of the situations referred to in Article 1(1)(a) shall apply as regards:

(b) reaching the decision to be taken by that authority. In the absence of Community rules in this regard, the criteria to be used in reaching that decision shall be the same as those used to determine whether goods produced in the Member State concerned infringe the rights of the holder. Reasons shall be given for decisions adopted by the competent authority.’

However, by the implementation of Council Regulation (EC) No 1383/2003 a similar wording is found but not in the Articles of the Regulation but in recital 8, which reads;

‘Proceedings initiated to determine whether an intellectual property right has been infringed under national law will be conducted with reference to the criteria used to establish whether goods produced in that Member State infringe intellectual property rights. This Regulation does not affect the Member States’ provisions on the competence of the courts or judicial procedures.’

It should be noted for the further discussion that those in favour of ‘manufacturing fiction’ argue that recital 8 of Council Regulation (EC) No 1383/2003 should be read in conjunction with Article 10, which reads:

‘The law in force in the Member State within the territory of which the goods are placed in one of the situations referred to in Article 1(1) shall apply when deciding whether an intellectual property right has been infringed under national law.’

The wordings of these provisions have resulted in two divergent interpretations, elaborated in national courts and among legal scholars.

The doctrine of ‘manufacturing fiction’ provides for an interpretation where goods detained by customs, irrelevant what suspensive customs procedure the goods are put under, shall be considered as being manufactured in the Member State of customs action and national law of that state shall apply when determine if the goods infringed any intellectual property rights.<sup>158</sup> Consequently, this means that goods are considered to infringe intellectual property rights under the Regulation only if the mere manufacturing of the

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<sup>157</sup> Vrins, O., *The real story of a fiction: transit after Montex under Regulation (EC) 1383/2003*, *Journal of Intellectual Property Law & Practice*, 2010, Vol. 5, No. 5, p. 360.

<sup>158</sup> Vrins, O., *supra* note 157, p. 360.

goods, assuming that it would have taken place in that Member State would have been prohibited under the national law of that State.<sup>159</sup>

Nonetheless, this is not the only relevant interpretation of Article 6(2)(b) of Council Regulation (EC) No 3295/94 and recital 8 of Council Regulation (EC) No 1383/2003 read in conjunction with Article 10. Read carefully, it says ‘the *criteria* to be used in reaching that decision shall be the same as those used to determine whether goods produced in the Member State’ in the former Regulation.<sup>160</sup> And, similar wording in recital 8 in the current Regulation ‘[p]roceedings initiated to determine whether an intellectual property right has been infringed under national law will be conducted with reference to the *criteria* used to establish whether goods produced in that Member State’.<sup>161</sup> Noticeably, the wordings where ‘manufacturing fiction’ is derived from could also be referring to ‘the criteria to be used’ respectively ‘the criteria used to establish’. Such interpretation provides that in determine if goods originating in another country are infringing intellectual property rights, same criteria shall apply as if the goods were manufactured in that Member State, thus, goods of foreign origin shall not be discriminated.

The Hon Mr Justice Kitchin, Judge of the High Court of Justice in England and Wales, examined ‘manufacturing fiction’ in *Nokia Corp. v. HMRC*<sup>162</sup>, same case as a reference for a preliminary ruling was referred to the ECJ.<sup>163</sup> J. Kitchin held that the doctrine of manufacturing fiction ‘would substantially extend the rights conferred upon the proprietor of a registered trade mark under the Community Trade Mark Regulation and the Trade Marks Directive’.<sup>164</sup> Furthermore, J Kitchin points to the fact that counterfeit goods is not limited to fakes since it is not that uncommon that the same trademark is owned and used legitimately by different proprietors in different territories. Consequently, if ‘manufacturing fiction’ applied, goods lawfully manufactured in one territory on its route to be lawfully put on the market in another territory is passing through a Member State where that trade mark belongs to a third party could be considered as counterfeit goods and thereby be detained by customs authorities. J Kitchin believes such outcome never was the intention behind the Regulation.<sup>165</sup>

To bear in mind is that ‘manufacturing fiction’ was already launched in Article 5(2)(b)<sup>166</sup> Council Regulation No 3842/86, which was only

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<sup>159</sup> Correspondence with Olivier Vrins, partner at ALTIUS law firm editor and co-author of ‘Enforcement of Intellectual Property Rights Through Border Measures. Law and Practice in the EU’.

<sup>160</sup> Council Regulation No 3295/94, supra note 42, Article 6(2)(b).

<sup>161</sup> Council Regulation No 1383/2003, supra note 56, Recital 8.

<sup>162</sup> The High Court of Justice in England and Wales, *Nokia Corp. v. HMRC* [2009] EHC 1903(Ch).

<sup>163</sup> C-495/09 *Nokia v HMRC*, supra note 131.

<sup>164</sup> *Nokia Corp. v. HMRC* [2009] EHC 1903(Ch), supra note 162.

<sup>165</sup> Ibid.

<sup>166</sup> ‘...the arriving at the decision to be taken by that authority. The criteria to be used for arriving at this decision shall be the same as those used to determine whether goods

applicable at importation of goods. At that time there was no harmonisation at all at the Community level regarding intellectual property rights. Thus, the Member States were free to decide which criteria to apply when determine if goods were infringing intellectual property rights. Olivier Vrins believes that the introduction of the Article was in order to avoid discrepancies and discriminatory treatments, in other words, the legislators tried to impose a “uniform” rule.<sup>167</sup>

If other national courts or even the ECJ would validate ‘manufacturing fiction’, it would result in an unusual application of the territoriality principle.<sup>168</sup> Goods would achieve an almost unlimited protection if it were considered as manufactured in every state. It would not cause any problems for world-renowned trademarks, but the Regulation is not limited to protect the strongest stakeholders.<sup>169</sup>

Olivier Vrins suggest to repeal Article 10 of the Regulation and accordingly remove this provision stipulating that it is the national law in force that apply when determine if goods are infringing any intellectual property rights within the territory in question.<sup>170</sup> This would allow right holders to prevent goods whose manufacture in the country of origin and the marketing in the destination country if this would infringe their conferred rights.<sup>171</sup>

## 4.5 Counterfeit goods in transit under the US system

The European Community legislation and its Member States national legislations are, as shown above, not reaching activity and goods put under customs suspensive procedures i.e. transit and customs warehouses. The legal development has taken a different turn under the U.S legal system. Counterfeit goods put under customs transit procedures is passing through ‘foreign trade zones’ but does not enjoy the same “safe harbour” as in the EU.

I am utmost grateful for the help I received from Mr. Jim Bikoff when I wrote this chapter. Mr. Bikoff guided me through the most important legal cases and current developments in case law related to counterfeit goods in transit under the U.S system. A review of the relevant cases is presented below followed by a short summary.

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produced in the Member State concerned infringe the rights of the owner of that trade mark. Reasons must be given for any decisions adopted by the competent authority.’

<sup>167</sup> Correspondence with Olivier Vrins, partner at ALTIUS law firm editor and co-author of *Enforcement of Intellectual Property Rights Through Border Measures. Law and Practice in the EU.*

<sup>168</sup> Vrins, O., *Counterfeiting perspectives – Protecting fortress Europe*, World Trademark Review, December/January 2010, p. 39.

<sup>169</sup> Ibid.

<sup>170</sup> Ibid.

<sup>171</sup> Ibid.

## 4.5.1 Counterfeit goods in foreign trade zones

In *A.T. Cross, Co. v. Sunil Trading Corp.*,<sup>172</sup> counterfeit CROSS-pens, manufactured in a third country, were put in New York's foreign trade zone, while passing through the United States, for shipment to another third country.<sup>173</sup> In a foreign trade zone 'goods may be stored, sold, exhibited, broken up, repacked, assembled, distributed, sorted and even mixed with foreign or domestic merchandise without being subject to the customs laws of the United States'.<sup>174</sup> The Court held that a the foreign trade zone is 'simply a bonded warehouse where foreign goods destined exclusively for foreign ports are stored and are not deemed to be "imports" for purposes of the United States Customs Tariff Laws'.<sup>175</sup> The defendant argued that the goods remained exclusively in the foreign trade zone whereby they were not introduced into the US and used 'in commerce' for purposes of the Lanham Act.<sup>176</sup>

The Court held in *A.T. Cross, Co. v. Sunil Trading Corp.* that the Lanham Act confers broad jurisdictional powers upon the courts of United States by referring to the intent of the Lanham Act, which provides that;

'The intent of this chapter is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce; . . . to protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colourable imitations of registered marks; and to provide rights and remedies stipulated by treaties and conventions respecting trade-marks, trade names, and unfair competition entered into between the United States and foreign nations.'<sup>177</sup>

The only reasonable interpretation, of this was, according to the Court, 'to render its jurisdictional predicates coextensive with those of the commerce clause'. Thus, 'the Lanham Act would clearly extend to the goods in issue'.<sup>178</sup>

The Court continued by elaborating whether the jurisdictional reach of the Lanham act was supposed to be excluded from foreign trade zones. Foreign trade zones were established through the Foreign Trade Zone Act of 1934. The intent behind it was to facilitate exports from the US of goods originating in foreign countries allowing them not be subject to taxes on import.<sup>179</sup> This would admit foreign goods into the US and citizens could be involved, and financially benefit from, in breaking down, repacking and relabeling of the goods. The Court stressed that the foreign trade zone 'was

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<sup>172</sup> *A.T. Cross, Co. v. Sunil Trading Corp.*, 467 F.Supp. 47 (S.D.N.Y. 1979)

<sup>173</sup> *Ibid.*, 48.

<sup>174</sup> *Ibid.*, 48 FN2.

<sup>175</sup> *Ibid.*, 48-49.

<sup>176</sup> *Ibid.*, 49.

<sup>177</sup> *Ibid.*, 50; United States Code, Title 15, Chapter 22, Subchapter III, § 1127.

<sup>178</sup> *A.T. Cross, Co. v. Sunil Trading Corp.*, supra note 172, 50.

<sup>179</sup> *Ibid.*



created pursuant to the exclusive power of Congress under the Commerce Clause to regulate commerce with foreign nations'.<sup>180</sup>

Ultimately, the Court concluded, 'since the Commerce Clause extends into the foreign trade zone, and the jurisdictional reach of the Lanham Act is coextensive therewith, the only possible conclusion is that absent an express repudiation of federal jurisdiction, the jurisdictional parameters of the Lanham Act reach within the foreign trade zone'.<sup>181</sup>

In *Reebok Int'l LTD v. American Sales Corp.*<sup>182</sup> counterfeit shoes, manufactured in Taiwan, were held in a foreign trade zone in Los Angeles on its way for further shipment to Belgium. The District Court of California cited *A.T. Cross, Co. v. Sunil Trading Corp.*, "[c]ommerce" under the Lanham Act includes domestic as well as foreign commerce with the United States and continued with a reference to Title 19 United States Code section 81e, "[v]essels entering or leaving a [foreign trade] zone [are] subject to the operation of all the laws of the United States, except as otherwise provided in this chapter ..."<sup>183</sup> The Court relied on these grounds and held that 'acts in foreign trade zones thus are subject to the authority of Congress as exercised in the Lanham Act.'<sup>184</sup>

In *Ocean Garden, Inc. v. Marktrade Co.*, Marktrade infringed rights conferred to the plaintiff by marketing similar products under brand names that established likelihood of confusion as to source or origin of goods as result of similarity of mark and distributed products for export to the Far East using a trade dress similar to one used by Ocean Garden.<sup>185</sup>

In finding jurisdiction resulting from shipment through a U.S foreign trade zone the Court did an extensive analysis of the Code of Federal Regulations (C.F.R) on foreign trade zones and trademarks to demonstrate why they find 'infringing goods in these zones are not precluded from the customs law'.<sup>186</sup> They found that the Code in 19 C.F.R. § 146.31 (1991) 'distinguishes between prohibited and conditionally admissible merchandise' where the former is defined as 'merchandise the importation of which is prohibited by law on grounds of public policy or morals, or any merchandise which is excluded from a zone by order of the Board. Books urging treason or insurrection against the U.S., obscene pictures, and lottery tickets are examples of prohibited merchandise.'<sup>187</sup> The Court continued this survey finding '[a]rticles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations'<sup>188</sup> and

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<sup>180</sup> Ibid, 50-51.

<sup>181</sup> Ibid, 51.

<sup>182</sup> *Reebok Int'l LTD v. American Sales Corp* 1989 WL 418625 (C.D.Cal.)

<sup>183</sup> Ibid.

<sup>184</sup> Ibid.

<sup>185</sup> *Ocean Garden, Inc. v. Marktrade Co.*, 953 F.2d 500, 502 (9th Cir. 1991)

<sup>186</sup> Ibid, 505.

<sup>187</sup> 19 Code of Federal Regulations § 146.1(b)(13)

<sup>188</sup> 19 Code of Federal Regulations § 133.21(a) (1991)

concluded that '[i]t is reasonable to infer that merchandise that infringes trademarks under section 133.21(a) would be another example of prohibited merchandise under section 146.31.'<sup>189</sup>

Accordingly the Court held that 'entry of infringing goods into a foreign trade zone is a sufficient act in commerce to trigger subject matter jurisdiction in federal courts under the Lanham Act, which, by definition, can only be brought to vindicate marks that enjoy protection in the United States by virtue of proper registration'<sup>190</sup> They also reaffirmed the findings in *A.T. Cross, Co. v. Sunil Trading Corp.*

To be clear, the Court stated an example were the jurisdictional reach of the Lanham act does not apply to goods in foreign trade zones;

'Our rule does not create plenary federal court jurisdiction over every item that touches a foreign trade zone. Take, for example, a Swiss company selling French goods in Hong Kong, with a trademark not protected in the United States. Should it turn out that the French goods are infringing on an English company's mark, the fact that the goods stopped in a United States foreign trade zone would be insufficient to establish jurisdiction in a suit brought in our courts by the English company against the Swiss company. The United States has no interest in such a case'<sup>191</sup>

However, if the situation above were related to a trademark enjoying protection under the Lanham Act, federal courts jurisdiction would be established.<sup>192</sup>

In *U.S. v. 4,432 Mastercases of Cigarettes, More or Less*<sup>193</sup>, from the Ninth Circuit Court of Appeals grey market cigarettes, meaning American-made exported cigarettes that are re-imported into the United States, and American brands of cigarettes manufactured abroad for sale in foreign markets but then imported into the United States, were stored in a foreign trade zone in California for a planned eventual sale to a Missouri-based company.<sup>194</sup> The cigarettes were in violation of country-of-origin rules, the owner indicated the goods were from Switzerland, when they were truly from Czech Republic, Germany, Holland and Malaysia.<sup>195</sup> Custom Officers inspected the warehouse located in the foreign trade zone and became suspicious about the nature of the goods. The cigarettes were seized, sampled for counterfeiting and finally sold at a court-ordered interlocutory sale.<sup>196</sup>

The defendant argued that there was no legal basis for a 'warrantless search and seizure'. This was rejected by the Court which held that '[i]t is long-

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<sup>189</sup> *Ocean Garden, Inc. v. Marktrade Co.*, supra note 185, 505.

<sup>190</sup> *Ibid.*

<sup>191</sup> *Ibid.*

<sup>192</sup> *Ibid.*

<sup>193</sup> *U.S. v. 4,432 Mastercases of Cigarettes, More Or Less*, 448 F.3d 1168, 1189 (9th Cir.2006)

<sup>194</sup> *Ibid.*, 1173.

<sup>195</sup> *Ibid.*, 1174.

<sup>196</sup> *Ibid.*, 1174-1175.

established and well understood that, in exchange for the benefits afforded to users of FTZs, those who store merchandise in FTZs must keep Customs apprised of their activities and afford Customs officials the right to inspect their operations. Intrigue was well aware of this trade-off when it decided to run its operations out of an FTZ.<sup>197</sup> Furthermore, the Court held that 'virtually all the activities that take place within an FTZ fall within the scope of Customs inspection and monitoring' by referring to *A.T. Cross, Co. v. Sunil Trading Corp.*<sup>198</sup> After these key findings the Ninth Circuit Court of Appeals concluded that the warrantless search of the defendant's storage area was a 'valid and reasonable administrative search'.<sup>199</sup>

## 4.5.2 Summary

The U.S foreign trade zones seem to be established with the same intent as the corresponding European suspensive customs procedures such as transit and customs warehouses. It is a system designed to facilitate trade without goods being deemed to be 'imports' and thereby avoid taxes and other commercial policy measures until they reach their final destination. However, this does not exclude the operation of all the laws of the United States is applicable on vessels entering or leaving a foreign trade zone, except as otherwise provided.

U.S judges has not only found that the 'jurisdictional parameters of the Lanham Act reach within the foreign trade zone' but also that 'entry of infringing goods into a foreign trade zone is a sufficient act in commerce to trigger subject matter jurisdiction in federal courts under the Lanham Act'. 'Commerce' under the Lanham Act includes both domestic and foreign commerce with the United States.

Finally, in exchange for the benefits afforded to users of a foreign trade zone must those who store merchandise in foreign trade zones, keep Customs authorities informed of their activities and afford Customs officials the right to inspect their operations.

## 4.6 Analysis

The *Montex*-judgment has caused confusion among national courts and legal scholars. Outstanding issues are whether Council Regulation (EC) No 1383 is applicable on goods in transit and if 'manufacturing fiction' is validly applied on goods in transit.

Council Regulation (EC) No 1383/2003 and its predecessor, Council Regulation (EC) No 3295/94, are applicable on goods in transit leaving and entering the Community. First of all, both the Regulations sets out

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<sup>197</sup> Ibid, 1175, 1176 and 1178.

<sup>198</sup> Ibid, 1180 and 1181.

<sup>199</sup> Ibid, 1181.

conditions in the portal Articles, for action by the customs authorities when goods are suspected of infringing intellectual property rights where Article 1(1)(b) respectively Article 1(1)(a)(second paragraph) are both clearly referring to goods placed under a customs suspensive procedure, which includes goods put under a customs transit procedure. Secondly, it was held in *Polo/Lauren* and reiterated in *Rolex* that the Regulations is applicable on goods in transit. Finally, the Regulations are applicable on goods in transit regardless whether they are originating in a Member- or a non-Member State and regardless whether the destination of the goods is a Member- or a non-Member State.

However, recalling the provisions in the Community Customs Code, the transit procedure allows for the temporary suspension of duties, taxes and commercial policy measures that are applicable at import, thereby allowing customs clearance formalities to take place at the destination rather than at the point of entry into the customs territory. This is in line with the judgment in *Polo/Lauren*, goods placed under customs transit procedure ‘are subject neither to the corresponding import duties nor to the other measures of commercial policy. It is as if they had not entered Community territory.’ Furthermore, the nature of the transit procedure by definition does not constitute a placing on the market. The mere presence of goods in a Member State, intended to be put under transit, neither does it constitute ‘importing’ nor does it constitute ‘using in the course of trade’ within the meaning of the Community legislations related to trade marks.

The core of the exclusive rights conferred to a proprietor of a trademark is to prohibit that any other, use it in the course of trade, gain unfair advantage and values related to that specific trademark. ‘Using in the course of trade’ is the decisive element in Community legislation and national legislation related to trademarks in determine an infringement in such rights. Since Council Regulation (EC) No 1383/2003 and its predecessor Council Regulation (EC) No 3295/94 are referring in Article 2(1) to the Community legislation and the national laws when defining counterfeit or pirated goods. Consequently, counterfeit goods put under customs transit procedure cannot constitute an infringement in the rights conferred to a trademark since the trademark is not ‘used in the course of trade’. As a general rule do goods in transit not constitute an infringement in intellectual property rights, it cannot be seen as ‘imported’ within the meaning of trademark law.<sup>200</sup>

Foregoing considerations seems to be the most accurate interpretation of the legal situation related to counterfeit goods in transit through the Community. I could not be more than agreeing with The Hon Mr Justice Kitchin in *Nokia Corp. v. HMRC* [2009] EHC 1903(Ch) where he after a thoroughly review of case law from the ECJ concludes that:

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<sup>200</sup> Troels Felskov-Lihme, Varemærkrettens anvendelse på varer i transit. EF-domstolens afgørelse i *Montex Holding Ltd. mod Diesel S.p.A.* (sag C-281/05), Nordiskt Immaterialrättsligt Rättsskydd (NIR) 2007, no 4, p.370

‘It follows that I must refuse Nokia’s application for judicial review, based as it is upon the proper interpretation of the Counterfeit Goods Regulation. I recognise that this result is not satisfactory. I can only hope it provokes a review of the adequacy of the measures available to combat the international trade in fake goods by preventing their transshipment through Member States.’<sup>201</sup>

In the following sub-headings, I have highlighted, in my opinion, outstanding issues that call for further discussion.

### ***‘Use in the course of trade’***

‘In the course of trade’ is found as a key element for an infringing act in TRIPs, Council Directive 89/104 and Council Regulation on Community trademark, unfortunately is it not defined in any of those legislations.

The ECJ held in *Montex* that the mere risk of goods would be put on the market is not sufficient to constitute a use of the mark in the course of trade within the meaning of Article 5(1) and (3) of Council Directive 89/104. This is a recurring problem in many of the cases where counterfeit goods in transit are detained by customs authorities. Goods are counterfeit in terms of being produced without permission from the right-holder but are not put on the market and thereby do not constitute an infringement according to the Community legislation or national trademark legislation.

Jeremy Philips provides with an interpretation that I find very interesting, aiming to protect or guarantee the function of a trademark.<sup>202</sup> Philips refers to the ECJ which held in *Arsenal* that a trademark is ‘used in the course of trade’;

‘...since it takes place in the context of commercial policy activity with a view to economic advantage and not as a private matter.’<sup>203</sup>

This should not be considered as a definition but as an observation of a situation where a use in the course of trade usually occurs.<sup>204</sup> An act which constitutes an infringement could damage the repute of a trademark without necessarily being of an economic advantage for the performer of the act would nevertheless be of damage for the proprietor of that trade mark.<sup>205</sup> It was also stated by the ECJ in *Arsenal*, that ‘use in the course of trade’ means that a use ‘must affect or be liable to affect one of the functions of the mark’.<sup>206</sup>

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<sup>201</sup> J. Kitchin, *Nokia Corp. v. HMRC* [2009] EHC 1903(Ch)

<sup>202</sup> Jeremy Philips, ‘Trade Mark Law, A Practical Anatomy’, 1 edition, Oxford University Press Inc., New York (2003), p. 205.

<sup>203</sup> Paragraph 40, C-206/01 *Arsenal* [2002] ECR I-102, reiterated in paragraph 50 C-236-238/08 *Google v. LV and others* [2010] ECR I-0000.

<sup>204</sup> Philips, *supra* note 202, p. 205.

<sup>205</sup> *Ibid.*

<sup>206</sup> Paragraph 42, C-206/01 *Arsenal* [2002] ECR I-102

Philips argues that this requirement sets out a condition precedent to a finding that an infringement in the trademark exists. The interpretation of 'use in the course of trade' is not literal and consequently requires the court, in infringement proceedings, to not only look into the characteristics but also the consequences of the infringement.<sup>207</sup> Recital 10 of Council Directive 89/104 states that the function of the trademark is in particular to guarantee the origin of goods; it is even an absolute function of the trademark. This is further elaborated in *Arsenal* where the ECJ conclude that the essential function of a trademark is to guarantee 'the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin.'<sup>208</sup> A trademark 'must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality'.<sup>209</sup> This means, according to Philips, that any use which damage the capacity of the trademark to establish such a guarantee is an infringing use 'in the course of trade'.<sup>210</sup>

The counterfeit batteries in *Panasonic/Tavatur* were missing an important insulation tape that could cause short circuit which consequently could lead to dire consequences. In my opinion would this be a typical case where the very core of the function of a trademark has been infringed.<sup>211</sup>

Finally, 'use in the course of trade' is an element that in itself is contradictory when determine counterfeit goods. Why even bother marking a product with a renowned trademark without the proprietor's permission if the purpose was not to benefit from the reputation of the mark, and thereby gain financial advantage of the trademark.

### ***'Use in the course of trade' v 'use in commerce'***

'Use in the course of trade' has its corresponding wording 'use in commerce' under the Lanham act.<sup>212</sup> The U.S foreign trade zones seem to be established with the same intent as the corresponding European suspensive customs procedures such as transit and customs warehouses. U.S judges has found that the 'entry of infringing goods into a foreign trade zone is a sufficient act in commerce to trigger subject matter jurisdiction in federal courts under the Lanham Act'. 'Commerce' under the Lanham Act includes both domestic and foreign commerce with the United States.

The U.S judges has in contrast to the ECJ found that goods put under transit/foreign trade zone is sufficient act in commerce i.e. use in the course of trade to cause subject matter jurisdiction. My opinion is that the U.S judges has come to a very sound conclusion regarding foreign trade zones

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<sup>207</sup> Philips, supra note 202, p. 205-206.

<sup>208</sup> C-206/01 *Arsenal*, supra note 206, paragraph 48.

<sup>209</sup> Ibid.

<sup>210</sup> Philips, supra note 202, p. 206.

<sup>211</sup> *Panasonic/Tavatur*, supra note 147.

<sup>212</sup> United States Code, Title 15 ('the Lanham act').

and the transit procedure, it comes with benefits but also obligations. Benefits, since transit allows for the temporary suspension of duties, taxes and commercial policy measures that are applicable at import, thereby facilitate trade. However, transit comes with an obligation to abide the law. The intention of the transit procedure has never been to facilitate for a free zone where trade in illegal products, such as counterfeit goods, could go on outside the reach of law.

### ***Risk***

A proprietor of a trademark cannot oppose the mere entry into the Community of goods put under the transit procedure, regardless if the goods are unlawfully manufactured in the country of origin (in relation to the intellectual property rights in that country) or if they would infringe rights conferred to the trademark in the country of destination. To break this presumption the proprietor has to prove that the goods are subject to the act of a third party while they are placed in transit which necessarily, the mere risk is not sufficient, entails the goods being put on the market in that Member State of transit, thus 'used in the course of trade'. This was concluded in *Montex*. But, determine if goods would 'necessarily' be put on the market must call for other elements than 'used in the course of trade' since because it is an earlier stage of the sequence of events.

It must be noted that in *Montex* was the judgment given on the interpretation of Article 5(1) and (3) of the First Directive 89/104 on Trade Marks. There is no indication in the opinion from the advocate general or the following judgment from the ECJ that provisions of the Regulation were considered.<sup>213</sup> Furthermore, none of the provisions in the First Directive 89/104 on Trade Marks provides for an interpretation where the mere risk of an infringement would be sufficient enough to prohibit the use of a trademark.

Note that, in *Polo/Lauren* the ECJ held about the transit procedure that '[t]his operation is all the more liable to have a direct effect on the internal market as there is a risk that counterfeit goods placed under the external transit procedure may be fraudulently brought on to the Community market.' In the later *Nokia v Wärdell*<sup>214</sup> it was concluded that Article 98(1) of Council Regulation 40/94 on the Community trade mark 'is to be interpreted as meaning that the mere fact that the risk of further infringement or threatened infringement of a Community trade mark is not obvious or is otherwise merely limited does not constitute a special reason for a Community trade mark court not to issue an order prohibiting the defendant from proceeding with those acts'.<sup>215</sup>

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<sup>213</sup> Reeskamp, P. and den Ouden, E., *Seizing the initiative over goods in transit*, World Trademark Review, April/May 2010, p. 28-30.

<sup>214</sup> C-316/05 *Nokia* [2006] ECR I-12083.

<sup>215</sup> *Ibid*, paragraph 36.

My opinion is that the findings in *Polo/Lauren* are still valid. This opens up for an argumentation that goods put under external transit constitute a risk of being fraudulently brought on the market which would be a threatening infringement as provided in Council Regulation 40/94 on the Community trade mark. Therefore, counterfeit goods that are put under the transit procedure should be a sufficient ground for the Court to issue an order prohibiting the defendant from proceeding with the acts that would infringe the Community trademark.

### ***Manufacturing fiction and the post-Montex doctrine***

An important declaration made in *Montex* is that none of the provisions in Council Regulation (No) 3295/94 introduces a new criterion to determine if there has been an infringement of trademark law. This, together with the arguments above, is in my view a clear indication that the doctrine of 'manufacturing fiction' is not a justifiable interpretation of Council Regulation (No) 3295/94 and has never been. The 'manufacturing fiction' used in the Dutch law enforcement is not validated by the ECJ and should neither be, even if the results are in a right-holder perspective favorable. However, further harmonization of national trademark laws to include transit would legally be a better option than applying legal fiction.

### ***Harmonize national trademark laws further***

Further harmonization through directives could be a solution reaching counterfeit goods in transit. Finland is an example where the national legislator has extended the scope of its national trademark law to include the right to prohibit counterfeit goods put under transit. Article 58 of the Community Customs Code provides that goods may at any time be put under customs transit procedure 'irrespective of their nature or quantity, or their country of origin, consignment or destination'. However, this '...shall not preclude the imposition of prohibitions or restrictions justified on grounds of... the protection of industrial and commercial property.'<sup>216</sup>

### ***Onus of proof***

As regards the burden of proof, it follows from *Class International* and *Montex* that it is for the trademark proprietor to prove the facts, which would give grounds for exercising the right of prohibition of counterfeit goods being released on the market. In other words, it is for the trademark proprietor to prove that the acts of the defendant necessarily entails counterfeit goods put under customs transit procedure be put on the market in the Member State of transit.

That burden of proof should be less strict and/or be transferred to the defendant in cases where the consignment of goods contain such large quantities that any other use than 'use in the course of trade' is unthinkable. For example, the detained consignment in *Panasonic/Tavatur* contained

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<sup>216</sup> Council Regulation (EEC) No 2913/92, supra note 17, paragraph 58.



more than 13,000 batteries. It is not very likely that any person could have a personal use of 13,000 batteries, and, thus the continued procedure with such consignment will take place in the context of commercial policy activity with a view to economic advantage.

### *Personal baggage*

Previous discussion in this thesis is targeting the supply of counterfeit goods. It is equally important to cease the demand for counterfeit goods. A very wrongful signal is sent to the public when Council Regulation (EC) No 1383/2003 is not applicable to traveler's personal baggage that contains goods of non-commercial nature within the duty-free limit of 175 EUR. This sends a signal to the public that counterfeit goods are just an issue in a commercial perspective, and personal use of counterfeit goods is acceptable.<sup>217</sup> Furthermore, many small brooks will form a big river; counterfeiters could easily put repeated border crossings into system. Recall that 26 percent of the cases regarding border detentions 2008 were derived from passenger traffic.<sup>218</sup> Another aspect of interest is how to estimate the value. Should it be calculated based on the price for the original goods? Alternatively, the street-value of the counterfeit goods? A fake Swiss-made watch could be bought for a couple of tens, but the retail-price of a genuine would easily amount to 1000 EUR.

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<sup>217</sup> Daele, K., *Regulation 1383/2003: A new step in the fight against counterfeit and pirated goods at the borders of the European Union*, European Intellectual Property Review, 2004, issue 5, p. 216.

<sup>218</sup> Ibid.

## 5 Liability of intermediaries

Methods used by fraudsters become more sophisticated, routes are broken to disguise the origin of goods, consignments with authentic goods are mixed with counterfeit goods and the customs status is constantly changed.<sup>219</sup>

Counterfeit goods are often manufactured in remote parts of the world. A simple shelter is often enough to manufacture the goods. People engaged in the counterfeit business are hiding behind fake addresses and falsified documents. The Internet further facilitates counterfeiters activities thus it provides for an accessible platform selling merchandise worldwide directly to consumers. A seller can remain anonymous and distribution of large consignments of infringing goods avoided by sending small number of infringing items packaged in an ordinary postal parcel to consumers.<sup>220</sup>

As a result, combined with poorly functioning judicial systems in the countries of origin, focus has shifted to intermediaries instead of the direct source of counterfeit goods. If right-holders cannot target the source then cutting the link between counterfeiters and end-consumers is an alternative solution.<sup>221</sup> Since most freight forwarders, shipping agents and other service providers are operating fully law-abiding businesses is it in a right-holders perspective more convenient to target an intermediary who has a registered office and is solvent.<sup>222</sup>

Shifting the target from fraudsters to law-abiding actors has consequences for another. The transport- and shipping-industry is an important intermediary for all kind of trade with goods but also a sector already heavily regulated which competes on a highly competitive market. Moving a consignment from point A to point B in a as swiftly and as effectively manner as possible would be noticeably burdensome if accountability for infringing intellectual property rights could be claimed.<sup>223</sup> Customs procedures and enforcement of intellectual property rights through border measures is something that slows rather than facilitates their everyday duties. Consequently, right-holders can probably not count on a strong support from the transport- and shipping-industry when looking after their rights.<sup>224</sup>

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<sup>219</sup> COM (2005) 479 final, Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on a Customs response to the latest trends in counterfeiting and piracy, (Brussels, 11.10.2005) p. 6.

<sup>220</sup> Pechan, L. and Schneider, M., *Carriers and trade mark infringements: should carriers care?*, Journal of Intellectual Property Law & Practice, 2010, Vol. 5, No. 5. pp. 350-357.

<sup>221</sup> Ibid.

<sup>222</sup> Ibid.

<sup>223</sup> Jeremy Philips, "Intellectual Property: Borders and Crossroads", chapter 29, Enforcement of Intellectual Property Rights Through Border Measures. Law and Practice in the EU, edited by Schneider, M. and Vrins, O., Oxford University Press, p. 1103.

<sup>224</sup> Ibid, p. 1104.

Whatever the case might be, counterfeiters would not survive without services provided by the transport- and shipping-industry. Accordingly is it in a legal perspective of great interest to examine liability for intermediaries i.e. freight forwarders, shipping agents and other service providers.

## 5.1 Legislation on liability of intermediaries

There are no explicit provisions regulating the accountability of carriers, freight forwarders and other service providers regarding their involvement in transportation of goods infringing intellectual property rights. Guidance has to be sought after in Community law on enforcement of intellectual property rights in general and the possibility of liability under alternative rules of law e.g. liability for complicity.

### 5.1.1 Liability under the Swedish Penal Code

The provision for responsibility for complicity according to the Swedish Penal Code, Chapter 23 Section 4, read as follows;

‘Chapter 23 Section 4

Punishment as provided for an act in this Code shall be imposed not only on the person who committed the act but also on anyone who furthered it by advice or deed. The same shall also apply to any other act punishable with imprisonment under another Law or statutory instrument.

A person who is not regarded as the perpetrator shall, if he induced another to commit the act, be sentenced for instigation of the crime and otherwise for aiding the crime.

Each accomplice shall be judged according to the intent or the negligence attributable to him. Punishments defined in law for the act of a manager, debtor or other person in a special position shall also be imposed on anyone who was an accomplice to the act of such person.

The provisions of this paragraph do not apply if the law provides otherwise in special cases.’ (Law 1994:458)<sup>225</sup>

First, it should be noted that responsibility for complicity in a criminal act, also include criminal acts stipulated in Special Penal Law such as legislations governing infringement in intellectual property rights if imprisonment is prescribed in the range of punishment.

The first paragraph read that other than the person who committed the act could be liable but also ‘anyone who furthered it by advice or deed’.

Meaning that, to be considered as a criminal involvement, there must be a promotion that has either physically or mentally influenced the establishment or performance of the offense.<sup>226</sup>

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<sup>225</sup> Chapter 23 Section 4, The Swedish Penal Code in an unofficial translation published by the Ministry of Justice.

<sup>226</sup> Holmqvist/Leijonhufvud/Träskman/Wennberg, Brottsbalken – En kommentar Kap.13-24, 2009, p. 23:49.

The subjective element need to be met thus it is not sufficient that the described offense objectively has become a reality. Whether the offender cannot be liable because of lack of intent does not exclude responsibility for complicity.<sup>227</sup> On the other hand, responsibility for complicity does not require that the promotion by advice or deed constitute a condition for the conduct to take place. Thus, a person could be liable for complicity even if he or she only slightly contributed to the criminal act.<sup>228</sup>

In a case from the Swedish Supreme Court, a man was responsible for complicity to assault and battery, despite the fact that he was only holding his friend's coat while the friend was battering another man. The Court found that the man should have understood that by holding the coat he was promoting the assault, 'he must under the circumstances to have known'.<sup>229</sup>

Finally, third paragraph, 'Each accomplice shall be judged according to the intent or the negligence attributable to him' this applies to both the promoting part and the actual criminal act.

## 5.1.2 The Directive on e-commerce

The development of information society services within the European Union, and in a global perspective, considered as a highly prioritized area to ensure social and economical progress. Today are many sectors of goods and services dependent on business through e-commerce, this includes trade with counterfeit goods. The Directive on electronic commerce<sup>230</sup> regulates a range of situations regarding e-commerce such as internal market, treatment of contracts, information provided and codes of conduct but also with the liability arising from the copyright infringements of intermediary service providers.

Directive on electronic commerce contains provisions that allow for exemptions from liability. Exemptions are limited and cover only cases where the participation from a provider of an information society service is limited to involve just the mere required technical process of operating and giving access to communication networks and making transmission efficient. The provided service must be of a strictly technical, automatic and passive nature meaning that the service provider has neither knowledge nor control over transmitted or temporarily stored information.<sup>231</sup> Exemptions are granted for 'mere conduit' and 'caching' only if the service provider by

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<sup>227</sup> Ibid.

<sup>228</sup> Ibid, p. 23:54.

<sup>229</sup> NJA 1963 s. 574.

<sup>230</sup> Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce') [OJ L 178, 17.7.2000].

<sup>231</sup> Ibid, recital 42.

no means is involved with the information.<sup>232</sup> Exemption from liability is granted by Article 14 if;

'...the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent; or the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information...'

Consequently, an intermediary who deliberately collaborates with a recipient of his service whose action would infringe intellectual property rights could not rely on the liability exemption in Article 14.<sup>233</sup>

The interpretation of Article 14 was subject to a preliminary ruling in *Google v. LV and others*<sup>234</sup>, presented below.

### 5.1.2.1 C-236-238/08 *Google v. LV and others*

Google's search engine is based on a special algorithm that displays a list of results called 'natural results' when searching the Internet. 'Google AdWords' is the name of the referencing service that displays 'sponsored links' – 'ads', above and to the right of these search results. An 'ad' is made up of such sponsored hyperlink with a commercial message. The 'ad' is connected to specific keywords that the advertiser chooses. The advertiser pays for every click on the link that the reference service generates.<sup>235</sup>

The proprietor of the Community trademark 'Vuitton' and the French trademarks 'Louis Vuitton' and 'LV' found in *Google v. Louis Vuitton* that when using a search term including these words references were displayed under 'sponsored links'. These were hyperlinked to sites offering imitated Louis Vuitton-products. They also found out that Google not only offered keywords referring to the trademarks but also those keywords in combination with terms such as 'copy and 'imitation'.<sup>236</sup> The 'ad'-process, automatically operated by special software developed by Google, is a simple procedure that leaves only for the advertiser to choose a keyword, draft a commercial message and add the link to the site.<sup>237</sup>

First, the ECJ held that conditions under which liability of a service provider arises must be sought in the applicable national law, but Article 14 provides for situations where intermediaries should not be accountable.<sup>238</sup> This means that national courts need to do a case-by-case analysis, however with guidance from the Google-case.<sup>239</sup> The ECJ referred to recital 42 that provides for exemptions from liability in cases where the provided

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<sup>232</sup> Ibid, recital 43.

<sup>233</sup> Ibid, recital 43 and 44.

<sup>234</sup> C-236-238/08 *Google v. LV and others* [2010] ECR I-0000

<sup>235</sup> Ibid, paragraph 22-27.

<sup>236</sup> Ibid, paragraph 28-29.

<sup>237</sup> Ibid, paragraph 27.

<sup>238</sup> Ibid, paragraph 107.

<sup>239</sup> Ibid, paragraph 107; Tobias Malte Müller, *Searching for legal resolution - how keywords stayed high on the court agenda in 2009*, World Trademark Review, June/July 2010 p. 56.

intermediary service is ‘of a mere technical, automatic and passive nature’, which implies that that service ‘has neither knowledge nor control over the information which is transmitted or stored’.<sup>240</sup> This means that such service provider cannot be held liable ‘unless that service provider, after having become aware, because of information supplied by an injured party or otherwise, of the unlawful nature of those data or activities of that recipient, fails to act expeditiously to remove or to disable access to those data’.<sup>241</sup>

Furthermore, the Court found that Google, in its role as ‘an internet referencing service provider which stores, as a keyword, a sign identical with a trade mark and organizes the display of advertisements on the basis of that keyword’<sup>242</sup> does not ‘use’ that sign within the meaning of Article 5(1) and (2) of Directive 89/104 or of Article 9(1) of Regulation No 40/94.<sup>243</sup> It is no doubt that the referencing service provider operates ‘in the course of trade’ when it gain a profitable income by permitting advertisers ‘to select, as keywords, signs identical with trademarks, stores those signs and displays its clients’ ads on the basis thereof, it does not follow, however, from those factors that that service provider itself ‘uses’ those signs within the terms of Article 5 of Directive 89/104 and Article 9 of Regulation No 40/94’.<sup>244</sup>

In other words, Google allow its clients to use signs that are identical with or similar to, trademarks, without itself using those signs in the course of trade.<sup>245</sup> Google’s ‘use’ of the trade mark is not a use in an infringing manner since it acts as an ‘information society service’ under Community law, and thus the search engine could rely on the exemption from liability under Article 14.<sup>246</sup>

However, the ECJ made it clear that ‘the role played by Google in the drafting of the commercial message which accompanies the advertising link or in the establishment or selection of keywords is relevant’ when examine exemptions under Article 14.<sup>247</sup>

The ECJ’s finding on exemption from liability should be interpreted narrowly, applying only to passive acts that are necessary to ensure that efficient access to the Internet is provided. This will also have an impact on auctions sites such as eBay.<sup>248</sup>

### ***Opinion of Mr Advocate General Poiares Maduro***

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<sup>240</sup> C-236-238/08 *Google v. LV and others*, supra note 234, paragraph 113.

<sup>241</sup> Ibid, paragraph 109.

<sup>242</sup> Ibid, paragraph 105.

<sup>243</sup> Ibid, paragraph 55-58.

<sup>244</sup> Ibid, paragraph 55.

<sup>245</sup> Ibid, paragraph 56.

<sup>246</sup> Sheldon H Klein, partner at Arent Fox LL, *Feature: Talking point: Google keywords*, World Trademark Review, June/July 2010 p. 15-16.

<sup>247</sup> C-236-238/08 *Google v. LV and others*, supra note 234, paragraph 118.

<sup>248</sup> Garteh Dickson, solicitor, Ashurst, *Feature: Talking point: Google keywords*, World Trademark Review, June/July 2010 p.16.

Advocate General Maduro examined whether Google's contribution, through AdWords, to trademark infringements by third parties could constitute, in itself, a trademark infringement – 'since the uses by Google may potentially contribute to infringements by third parties, those uses should also be treated as constituting infringements – despite the fact that those uses do not in themselves satisfy the conditions for finding an infringement.'<sup>249</sup>

If this were the case, it would mean a significant expansion of the scope of protection for trademarks towards a system similar to that developed in the United States known as 'contributory infringement' (or 'contributory liability')<sup>250</sup> 'Contributory infringement would be novel to many Member States' legal culture and would be incompatible with the case-law of the ECJ.<sup>251</sup>

AdWords is neutral in response to the selection of keywords and its use makes no difference law-abiding business or business selling counterfeit goods. Maduro particularly stresses that in most systems designed to facilitate access to and delivery of information, there is a risk that such system also contribute to facilitate infringements. This reasoning is not limited to the digital world but could for example be the case with newspapers.<sup>252</sup> Nevertheless, contributory infringement could lead to over protectionism constituting a serious obstacle to any system for the delivery of information.<sup>253</sup>

By above reasoning is Maduro of the view that the scope of trademark protection does not include 'contributory infringement'. However, such reasoning is more appropriate in a context of liability rules according to Maduro:

'Liability rules are more appropriate, since they do not fundamentally change the decentralised nature of the internet by giving trade mark proprietors general – and virtually absolute – control over the use in cyberspace of keywords which correspond to their trade marks.'<sup>254</sup>

Maduro discuss a possible liability in particular aspects of Google's role in their reference service AdWords. Advertisers can choose any keywords but are also given optional information how to maximize the exposure of their ads, for example, keywords that correspond to trademarks could be used to denote sites selling counterfeit goods. By providing this service, it is possible, that Google will contribute to internet users visiting sites selling counterfeit goods.<sup>255</sup> Such situation may incur liability for contributing to a

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<sup>249</sup> Paragraph 114-115, Opinion of Advocate General Poiares Maduro, C-236-238/08 *Google v. LV and others* [2010] ECR I-0000

<sup>250</sup> *Ibid.*, paragraph 117.

<sup>251</sup> *Ibid.*

<sup>252</sup> *Ibid.*, paragraph 119-120.

<sup>253</sup> *Ibid.*, paragraph 121.

<sup>254</sup> *Ibid.*, paragraph 123.

<sup>255</sup> *Ibid.*, paragraph 124.

trademark infringement. Although AdWords is an automated process there is nothing that prevents Google from introducing limited restrictions on associations related to counterfeit goods.<sup>256</sup> However, conditions for such liability are not regulated in Directive 89/104 neither in Council Regulation (EC) No 40/94 but is a matter to be decided under national law.

Finally, Maduro's position on exemption under Article 14 is contradictory to the findings of the ECJ. AdWords should not enjoy exemption under Article 14 of the e-commerce Directive according to Maduro. He believes that the aim of Directive 2000/31 is to 'create a free and open public domain on the Internet'. A prerequisite to enjoy exemption from liability is that the information service providers who wish to take advantage of the exemption from liability should be neutral as regards the information that they transmit or host.<sup>257</sup> Google has a direct financial interest in AdWords. Ads displayed depend on the relationship with the advertisers who pay Google for every click on the ad. This undermines AdWords as a neutral platform for transmitting and hosting information.<sup>258</sup>

### 5.1.3 The Infosoc-directive

Council Directive 2001/29/EC on the harmonization of certain aspects of copyright and related rights in the information society (Infosoc-directive) aim, as the title predicts, to harmonise national copyright law in a digital environment. It also provides for injunction against intermediaries. Article 8.3 of the Infosoc-directive clearly express that Members States shall in their national legislation '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 a copyright or related right'.<sup>259</sup>

Internet and digital environments in general, provide a platform that is easy to access and remain anonymous behind. The Infosoc-directive provides intellectual property right holders a right to apply for injunctions against the intermediaries, such as Internet service providers. A typical situation would be copyright protected material is made available by a third party on the Internet or similar networks for any user to download.<sup>260</sup> Just the mere operation of physical facilities for communication should normally not be sufficient to hold an intermediary liable, not even in objective terms, for promoting illegal transfer of copyrighted material to the public or unauthorized reproduction.<sup>261</sup> There are no general obligations for those who passing on information to investigate content of the material.

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<sup>256</sup> Ibid, paragraph 125.

<sup>257</sup> Ibid, paragraph 142-143.

<sup>258</sup> Ibid, paragraph 145-146.

<sup>259</sup> Article 8, Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [OJ L 167, 22.06.2001].

<sup>260</sup> Ibid, recital 59.

<sup>261</sup> Preparatory work, Proposition 2004/05:110 p. 340.



Consequently, intermediaries that neglect to control the content are not promoting infringing activities.<sup>262</sup>

To claim an intermediary liable, in objective terms, should therefore require more than just the mere providing and operation of service facilities. The preparatory work exemplifies a situation where liability of the intermediary could arise. It could be a situation where a person has a contractual agreement with the service provider of the right to use his server space and afterwards the intermediary finds reason to suspect that the server space being used in a manner that will infringe copyright. Such situation could provide for a possibility for right-holders to apply for injunction against the intermediary.<sup>263</sup>

#### **5.1.4 Directive on the enforcement of intellectual property rights**

Council Directive 2004/48/EC on the enforcement of intellectual property rights ('the Enforcement-directive') is the first directive, which aims to harmonise national legislation on all types of intellectual property rights. This shall entail for a horizontal harmonisation throughout the Community.<sup>264</sup>

Article 8 of the Enforcement-directive shall ensure that national courts in proceedings concerning infringement in intellectual property rights, may order the infringer and/or any other person who:

- 'was found in possession of the infringing goods on a commercial scale;
- was found to be using the infringing services on a commercial scale;
- was found to be providing on a commercial scale services used in infringing activities'

to provide information on the origin of the goods or services and its distribution networks. This calls for a 'justified and proportionate request of the claimant'.<sup>265</sup>

Article 9 of the Enforcement-directive provides for provisional and precautionary measures against the infringer and/or intermediaries 'whose services are being used by a third party to infringe an intellectual property right'. This includes seizure of goods suspected of infringing intellectual

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<sup>262</sup> Ibid.

<sup>263</sup> Ibid.

<sup>264</sup> Bonadio, E., *Remedies and sanctions for the infringement of intellectual property rights under EC law*, European Intellectual Property Review, 2008, issue 8, p. 320.

<sup>265</sup> Article 8, Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [OJ L 157, 30.4.2004]

property rights to prevent their entry into or movement within the conduit of commerce.<sup>266</sup>

Article 11 states that Member State's judicial authorities may issue injunctions against the infringer and/or intermediaries whose services being used by third parties to infringe intellectual property rights.<sup>267</sup> Corrective measures as destruction of goods and recall/definitive removal from channels of commerce are also available.<sup>268</sup> However, the imposition of such measures requires decisions on merits of the case.

The District Court of Stockholm examined, in *Panasonic/Tavatur*<sup>269</sup>, whether a forwarding agent could be liable for trademark infringement. The agent (Tavatur) was one of many agents involved in the shipment from China to Finland when the Swedish Customs authorities detained it. The Court found that the Enforcement-directive had been correctly implemented into the national trademark law but liability of an intermediary could only be claimed when an underlying infringement exists, the mere *risk* is not sufficient. Although Council Regulation 40/94 on Community trademark provides for the Court to issue, an order prohibiting the defendant that had infringed or *threatened* to infringe a Community trademark from proceeding with the act is this only possible on the direct infringer, not on the intermediary.<sup>270</sup>

## 5.2 Principle of proportionality

The competent judicial authority has to take into account the principle of proportionality when deciding to impose injunctions against intermediaries whose services are used by a third party to infringe intellectual property rights.<sup>271</sup>

Although there is no explicit legal basis, the Swedish Supreme Court held that an request for an interim order for sequestration could be refused, even if the objective element are met, if it would cause disproportionate harm in relation to the arguments for a writ of sequestration. The Court did not elaborate the application of the principle of proportionality in depth.<sup>272</sup>

Such restrictive stance in the assessment of proportionality related to injunctions met critique. However, a revision of the sanctioning system on infringement in intellectual property rights led to a less strict assessment of proportionality when applying injunctions.<sup>273</sup> In a later judgment from the

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<sup>266</sup> Ibid, Article 9.

<sup>267</sup> Ibid, Article 11.

<sup>268</sup> Ibid, Article 10.

<sup>269</sup> *Panasonic/Tavatur*, supra note 147.

<sup>270</sup> Ibid.

<sup>271</sup> Directive 2004/48/EC, supra note 265, recital 31; Bengtsson, H., Lyxell, R. Åtgärder vid immaterialrättsintrång, p. 176.

<sup>272</sup> NJA 1993 s. 182.

<sup>273</sup> Bengtsson, H., Lyxell, R. Åtgärder vid immaterialrättsintrång, p. 177.

Swedish Supreme Court it was held that a request for interlocutory injunction under Section 53a of the Copyright Act could be refused on grounds that the ban would have disproportionate adverse effects. Even if the objective element has shown that a copyright infringement has ‘on probable cause been identified’.<sup>274</sup> The Court held;

‘However, it is clear that such a proportionality assessment cannot be given such room as to jeopardize the general purpose which the new rules on prohibition under penalty of a fine are supposed to promote, which is to give rights holders the possibility to quickly put an end to an ongoing infringement. The stronger the ground for an infringement to occur at expense of the plaintiff, the smaller is the room for an assessment of proportionality.’<sup>275</sup>

### 5.3 Liability of intermediaries under the US system

Indirect trademark liability has according to Bikoff and others, undergone an extraordinary development in American jurisprudence. Traditional intellectual property rights faced a need for development regarding digital environments such as the Internet but also to face the increasing problems with counterfeit goods in a bricks-and-mortar context.<sup>276</sup> Bikoff and others has done an extensive summary of the evolvement of indirect trademark infringement. This chapter is primarily based on Bikoff and others’ article ‘*Hauling in the middleman: contributory trade mark infringement in North America*’<sup>277</sup>, where an excellent case law review is found.

The federal trademark statute, the Lanham act, has no explicit provisions regarding indirect infringement or liability of intermediaries; such provisions are only found in a handful of state laws. However, US judges have not given in on counterfeiters but have applied well-established common law theories of indirect tort liability to trade mark infringement.<sup>278</sup> A judicial doctrine of indirect liability, referred to as ‘contributory liability’, have been applied in cases concerning trademark infringements.<sup>279</sup> Along with the doctrine of ‘contributory liability’ has also a doctrine of ‘vicarious liability’ for trademark infringement evolved. ‘Vicarious liability’ does not require any knowledge of the infringing act.<sup>280</sup> The intermediary is instead liable due to a contractual agreement with the direct infringer, such as an apparent or actual partnership, joint ownership or in some sense in control

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<sup>274</sup> NJA 1995 s. 631.

<sup>275</sup> NJA 1995 s. 631(authors translation) of the Supreme Courts Grounds for judgment.

<sup>276</sup> Bikoff, J.L, Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., *Hauling in the middleman: contributory trade mark infringement in North America*, Journal of Intellectual Property Law & Practice, 2010, Vol. 5, No. 5. p. 333.

<sup>277</sup> Ibid.

<sup>278</sup> Ibid.

<sup>279</sup> Ibid.

<sup>280</sup> Bartholomew, M. and Tehranian, J., *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, Berkeley Technology Law Journal, 2006, Vol. 21, No. 4, p. 1366.

over an infringing product or service. Both these doctrines presume that there is an underlying act of direct infringement.<sup>281</sup>

However, liability based on contractual agreements, such as ‘vicarious liability’ falls outside the scope of my examination, and thus, is only the doctrine of ‘contributory liability’ discussed further.

Under the doctrine of ‘contributory liability’ on trademark infringement, two types of involvement could be inferred; ‘inducement of direct infringers’ and ‘knowing material contribution to or control over the means of direct infringement’ (‘knowledge and control’). ‘Inducement of direct infringers’ implies that the intermediary has actively encouraged to a direct infringement. ‘Knowledge and control’ means that accountability could be held against an intermediary who; ‘knows or has reason to know of direct infringement’, and ‘continues to assist the direct infringer by providing various instrumentalities necessary for infringement’.<sup>282</sup> The assistance from the intermediary must be ‘substantial’, meaning that there must be evidence showing that the contributory actions helped cause the infringement.<sup>283</sup>

### 5.3.1 Inducement of direct infringers

In *Hostetter Co. v Brueggman-Reinert Distilling Co*<sup>284</sup>, from the 1890’s is a rule found which today is generally known as to corresponds to an act of inducement of contributory trade mark infringement;<sup>285</sup>

‘a person who counsels and advises another to perpetrate a fraud, and who also furnishes him the means of consummating the same, is himself a wrongdoer, and, as such is liable for the injury inflicted’.<sup>286</sup>

In *William R. Warner & Co. v Eli Lilly & Co*<sup>287</sup>, dated 1924, the defendant was sued for contributory trademark infringement. The plaintiff, Eli Lilly & Co, manufactured and sold a drug under the brand COCO-QUININE. A salesperson from William R. Warner & Co, manufacturer of a generic medicine sold under the brand QUIN-COCO, suggested that pharmacists could replace prescriptions and orders of the plaintiff’s product with the defendants’ cheaper, look-alike product.<sup>288</sup>

The US Supreme court based its judgement upon a common-law rule stated in *Hostetter*;

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<sup>281</sup> Bikoff, J.L, Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276, p. 333.

<sup>282</sup> Ibid.

<sup>283</sup> Bartholomew, M. and Tehranian, J., supra note 280 p. 1367.

<sup>284</sup> *Hostetter Co. v Brueggman-Reinert Distilling Co.*, 46 Fed. Rep. 188 (C.C.E.D.Mo. 1891).

<sup>285</sup> Bikoff, J.L, Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276. p. 333.

<sup>286</sup> *Hostetter Co. v Brueggman-Reinert Distilling Co.*, supra note 284.

<sup>287</sup> *William R. Warner & Co. v Eli Lilly & Co.*, 265 U.S. 526 (1924).

<sup>288</sup> Bikoff, J.L, Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276. p. 333.

'one who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury'

The court found that the defendant had not practiced any deception on the pharmacists but had intentionally made it possible for dealers 'to palm off the drug as that of the plaintiff'.<sup>289</sup> The defendant was ordered to mark its products clearly preventing pharmacists from mislabelling. Accordingly, generic drugs could be lawfully manufactured but it is not allowed to use a look-alike trademark and benefit from a renowned trademark. A lawful imitation must be sold under its own trademark.<sup>290</sup>

### 5.3.2 Knowledge and control

Liability for knowledge and control has its origin in the previous turn of the century. It was first applied on printers and the core in this ground of liability is, under the federal jurisprudence expressed as; 'whether or not [the printers] have knowingly put into the hands of the dealers of the goods, by sale of labels, the means of deceiving the ultimate purchaser'.<sup>291</sup>

In *Coca-Cola Co. v Snow Crest Beverages, Inc.*<sup>292</sup> a manufacturer of cheap beverage sold under the label POLAR COLA was sued by the Coca-Cola Company. Bars used this cheaper beverage instead of Coca-Cola when serving customers 'Rum and Coca-Cola'.<sup>293</sup> The District Court of Massachusetts held that 'before he can himself be held as a . . . contributory infringer, one who supplies another with the instruments by which another commits a tort, must be shown to have knowledge that the other will or can reasonably be expected to commit a tort with the supplied instrument'.<sup>294</sup> Thus, liability of knowledge and control requires either 'notice by the plaintiff' or 'information that would persuade a reasonable man' of ongoing infringement.<sup>295</sup>

The US Supreme Court confirmed, in *Inwood Labs., Inc. v. Ives Labs Inc.*,<sup>296</sup> the doctrine of contributory liability. The Supreme Court held that 'liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another'. It also affirmed the inducement

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<sup>289</sup> Bikoff, J.L., Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276. p. 334; *William R. Warner & Co. v Eli Lilly & Co.*, 265 U.S. 526 (1924).

<sup>290</sup> Bikoff, J.L., Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276. p. 334.

<sup>291</sup> *Ibid*; *Hennesy v Herrmann*, 89 Fed. 669, 670 (C.C.Cal. 1898).

<sup>292</sup> *Ibid*; *Coca-Cola Co. v Snow Crest Beverages, Inc.* 64 F.Supp. 980, 989 – 990 (D. Mass. 1946), aff'd, 162 F.2d 280 (1st Cir.), cert. denied, 332 US 809, reh'g denied, 332 US 832 (1947).

<sup>293</sup> *Ibid*, p. 335.

<sup>294</sup> *Ibid*.

<sup>295</sup> *Ibid*.

<sup>296</sup> *Inwood Labs, Inc. v Ives Labs, Inc.*, 465 US 844, 853–854 (1982).

and the knowledge and control prongs of contributory trademark infringements.<sup>297</sup>

While the first fragment of the doctrine of contributory liability derived from the beginning of last century, it was not until the 1990s that it first applied to other than manufacturers and distributors. In *Hard Rock Cafe Licensing Corp. v Concessions Servs. Inc.*<sup>298</sup> the US Court of Appeals for the Seventh Circuit applied the ruling from *Inwood Labs., Inc. v. Ives Labs., Inc.* to a operator of a flea market. Counterfeit goods labelled with a variety of the trademark HARD ROCK CAFE was sold by vendors at the flea market. The Seventh Circuit elaborated on how the doctrine of contributory trademark infringement could be applied on others than manufactures and distributors of goods and found guidance in the common law.<sup>299</sup> The Court held that the common law, holds a landlord accountable for activities he permits on his premises where he is ‘knowing or having reason to know that the other is acting or will act tortuously’, and imposes this also to landlords and licensors.<sup>300</sup> ‘Reason to know’ means that a person has to understand what a reasonably prudent person would understand, but it does not impose any duty to seek out and prevent violation.<sup>301</sup> The Court continued by elaborating on ‘wilful blindness’ and stated that it ‘is equivalent to actual knowledge for purposes of the Lanham Act’ and ‘to be wilfully blind, a person must suspect wrongdoing and deliberately fail to investigate’.<sup>302</sup>

The doctrine of contributory trademark liability that has been imposed on landlords has also been successfully applied to packaging and shipping services. In *Cartier Int’l B.V. v Liu*<sup>303</sup>, a shipping company facilitated the shipping of goods via United Postal Service. The defendant was found to be aware that counterfeit items were sent using their services since it was located next door to the distributor of these items. The judgement from the Southern District of New York stated that the shipping company ‘was facilitating the marketing of counterfeit goods by arranging for shipment to customers’.<sup>304</sup>

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<sup>297</sup> Bikoff, J.L, Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276, p. 335-336.

<sup>298</sup> *Hard Rock Cafe Licensing Corp. v Concessions Servs., Inc.* 456 US at 851-856.

<sup>299</sup> Bikoff, J.L, Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276, p. 336; *Hard Rock Cafe Licensing Corp. v Concessions Servs., Inc.* 456 US at 851-856.

<sup>300</sup> Ibid.

<sup>301</sup> *Hard Rock Cafe Licensing Corp. v Concessions Servs., Inc.*, supra note 298.

<sup>302</sup> Ibid.

<sup>303</sup> *Cartier Int’l B. V. v. Liu*, No. 02 Civ. 7926(TPG), 2003 WL 1900852 (S.D.N.Y. Apr. 17, 2003).

<sup>304</sup> Bikoff, J.L, Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276 p. 337; *Cartier Int’l B. V. v. Liu*, No. 02 Civ. 7926(TPG), 2003 WL 1900852 (S.D.N.Y. Apr. 17, 2003).

## 5.4 Liability under the US system versus the European model

Traditional liability legislation, for example the liability rules found in the Swedish Penal Code, requires, to be held responsible, someone has furthered the act by advice or deed meaning a promotion that has either physically or mentally influenced the establishment or performance of the act. Similar conditions are found in the doctrine of 'contributory liability' called 'inducement of direct infringers' presented in the previous chapter. A person, who counsels and advises another to commit an act of infringing intellectual property rights, could be accountable for inducement of a direct infringement.

The doctrine of 'contributory liability' on trademark infringement requires either inducement of direct infringers or knowledge of the direct infringement and a material contribution to that infringement.<sup>305</sup> This calls for a direct control and monitoring of means of infringement.<sup>306</sup>

Liability for knowledge and control, under the US system requires, either 'notice by the plaintiff' or 'information that would persuade a reasonable man' of ongoing infringement. There is no general affirmative duty to investigate or take precautions against trademark infringement by third parties. The mere awareness of potential infringement is not enough for liability, although wilful blindness is equivalent to actual knowledge, thus 'to be wilfully blind, a person must suspect wrongdoing and deliberately fail to investigate'. The Directive on e-commerce and the Infosoc-directive provides for similar regulations.

What we see in Europe is a trend towards legislation similar to the US system. Contributory liability is no longer foreign to the legal culture in Europe. The Directive on e-commerce, the Infosoc-directive and the Enforcement-directive have contributed to a harmonized legislation in the EU that has expanded the scope of protection for proprietors of intellectual property rights in the sense that intermediaries could be claimed contributory liable for infringements, though not quite as far-reaching as in the US.

For example, Article 9 of the Enforcement-directive provides for provisional and precautionary measures against the infringer and/or intermediaries whose services are being used by a third party to infringe an intellectual property right.<sup>307</sup> Exemptions exist and the Directive on e-commerce contains provisions that allow for exemptions from liability. Exemptions are limited and cover only cases where the participation from a provider of an information society service is limited to involve just the mere required technical process of operating and giving access to communication networks

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<sup>305</sup> Bartholomew, M. and Tehranian, J., supra note 280, p. 1396.

<sup>306</sup> Ibid.

<sup>307</sup> Directive 2004/48/EC, supra note 265, Article 9.

and making transmission efficient. The provided service must be of a strictly technical, automatic and passive nature meaning that the service provider has neither knowledge nor control over transmitted or temporarily stored information.<sup>308</sup>

The liability provisions came to a head in *Google v. LV and others*<sup>309</sup> where the ECJ examined exemptions from liability under the Directive on e-commerce. The provided service must be of a strictly technical, automatic and passive nature meaning that the service provider has neither knowledge nor control over transmitted or temporarily stored information. The ECJ did not consider this in depth but briefly considered Google to enjoy exemption under Article 14 of the Directive on e-commerce. Instead, I would like to highlight the argumentation presented by AG Maduro. Exemptions should only be given to information service providers who have a neutral relation as regards the information that they transmit or host.<sup>310</sup> Google AdWords is in my view not a neutral party in the information society since Google has a direct financial interest in every click on their ads.

However, on the other hand, the Courts judgment in *Google v. LV and others*<sup>311</sup> could be seen as an indication that the doctrine of ‘contributory liability’ is not ready to be implemented in its whole in the European Community. AG Maduro provides us with some words of wisdom and a call for proportionate measures:

‘The claims of the trade mark proprietors would create serious obstacles to any system for the delivery of information. Anyone creating or managing such a system would have to cripple it from the start in order to eliminate the mere possibility of infringements by third parties; as a result, they would tend towards overprotection in order to reduce the risk of liability or even of costly litigation.’<sup>312</sup>

Finally, liability for intermediaries under the US system provides for applicability in a broad sense. Control and monitoring of means of infringement is a vague definition that could include a wide range of instrumentalities for use by the direct infringer.<sup>313</sup> However, the European model also provides for application of liability rules on intermediaries in a broad sense. ‘Direct control and monitoring of means of infringement’ and ‘intermediaries whose services are used by a third party to infringe intellectual property rights’ are both vague and wide conditions. It is more a question of wording, ‘means’ is closely related to ‘services’ but in practical terms is the European model not as far reaching as the US, although not far from.

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<sup>308</sup> Directive 2000/31/EC, supra note 230, recital 42.

<sup>309</sup> C-236-238/08 *Google v. LV and others*, supra note 234.

<sup>310</sup> Opinion of Advocate General Póitares Maduro, supra note 249, paragraph 142-143.

<sup>311</sup> C-236-238/08 *Google v. LV and others*, supra note 234.

<sup>312</sup> Opinion of Advocate General Póitares Maduro, supra note 249, paragraph 121.

<sup>313</sup> Bikoff, J.L., Johnston, K.A.F., Heasley, D.K., Marano, P.V and Long, A., supra note 276 p. 333.



Ultimately, I would like to emphasize that the principle of proportionality must not be forgotten in the future legislative work. Legal systems with strong intellectual property rights in combination with far-reaching liability rules of intermediaries increase the risk of over-protectionism and could cause obstacles not only in a free information society but also for the free global trade.

## 5.5 Analysis – Liability of carriers and forwarding agents

There is no definition of the term ‘intermediary’ to be found neither in the Enforcement directive nor in any other Community legislations related to intellectual property rights.<sup>314</sup> National courts and administrations among the Member States has treated carriers, forwarding agents, customs agents and other service providers as intermediaries within the meaning of Article 9 and 11 of the Enforcement-directive.<sup>315</sup> The competent judicial authority has to take into account the principle of proportionality when deciding to impose injunctions against these intermediaries.<sup>316</sup>

Providing a service which include the execution of administration and transportation of goods infringing intellectual property rights could thus to be seen as a service used by a third party to infringe an intellectual property right. This entails for the national courts to impose injunctions on intermediaries. Actions could be brought against any kind of intermediary whose services are used by a third party to infringe an intellectual property right. It should be noted that the Enforcement-directive does not refer to the term ‘infringer’ but to ‘services used by a third party to infringe’.<sup>317</sup> This means that an intermediary could be accountable for any third party who uses the services to infringe an intellectual property right.<sup>318</sup> In contrast to responsibility for complicity under the Swedish Penal code, the subjective element need not to be met, thus it is sufficient that the infringement objectively has become a reality. Not even a contractual relation is required between the intermediary and the person who uses the service for infringement to bring actions against the intermediary.<sup>319</sup>

The Enforcement-directive and the Infosoc-directive provides for harmonized legislations throughout the Community, aiming to ensure effective and rigorous legislations on intellectual property rights that are applicable also on modern channels of distribution. Community legislation ensures that right holders are in a position to apply for provisional and precautionary measures and injunctions against intermediaries whose

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<sup>314</sup> Pechan, L. and Schneider, M., supra note 220, pp. 350-357.

<sup>315</sup> Ibid.

<sup>316</sup> Directive 2004/48/EC, supra note 265, recital 31; Bengtsson, H., Lyxell, R. Åtgärder vid immaterialrättsintrång, p. 176.

<sup>317</sup> Directive 2004/48/EC, supra note 265, Article 9 and 11.

<sup>318</sup> Pechan, L. and Schneider, M., supra note 220, pp. 350-357.

<sup>319</sup> Ibid.

services are used by a third party to infringe intellectual property rights. Another powerful tool is the right to information on origin of goods and distribution networks provided for in the Enforcement-directive. There are no general obligations to investigate or take precautions against infringement by third parties. The mere awareness of potential infringement is not enough for liability, although wilful blindness is equivalent to actual knowledge. This corresponds to the legal situation regarding liability of intermediaries in the US.

Liability on intermediaries, who provide services used by third parties to infringe intellectual property rights, under Community legislation follows a stringent line. Exemptions are granted only for services of a strictly technical, automatic and passive nature meaning that the service provider has neither knowledge nor control over transmitted or temporarily stored information. Such exemptions should be interpreted narrowly, applying only to passive acts that are necessary to ensure efficient services.

The Community legislation regarding liability of intermediaries is in line with the Swedish Penal Code on liability of complicity of a criminal act to anyone who furthered the act by 'advice or deed' whereat a reasonable man 'must under the circumstances to have known'.

Marius Schneider hopes that the ability to coat an intermediary with liability will send a clear signal to intermediaries, and that they seize the opportunity to increase cooperation with right-holders in the fight against counterfeit goods.<sup>320</sup> Two possible solutions, according to Schneider, could be 'early warning systems' or Memorandums of Understanding. In countries where the mere transportation of counterfeit goods is considered as an act of infringement are clauses, stipulating that the transporter will surrender the goods if the right-holder has sent a cease-and-desist letter to the owner of the goods often found in the transporters terms and conditions.<sup>321</sup> A stronger interaction between right-holders and carriers would be desirable in the fight against counterfeit goods. Schneider believes there is a 'practical and legal need for right-holders to cooperate' since it would be favourable in a right-holder perspective but could also be beneficiary for the carrier.<sup>322</sup> If goods suspected of infringing intellectual property rights are discovered in the freight and the right-holder is informed, detention of the goods could be initiated and limit the liability of the carrier.<sup>323</sup>

Interlocutory injunctions do not necessarily put an end to future infringement, they do not enforce an established right but they do

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<sup>320</sup> Schneider, M., *Complicating the simplified procedure*, Journal of Intellectual Property Law & Practice, 2009, Vol. 4, No. 6 p. 394.

<sup>321</sup> Philips, J., "Intellectual Property: Borders and Crossroads", chapter 29, *Enforcement of Intellectual Property Rights Through Border Measures. Law and Practice in the EU*, edited by Schneider, M. and Vrins, O., Oxford University Press, p. 1103.

<sup>322</sup> Pechan, L. and Schneider, M., *supra* note 220, pp. 350-357.

<sup>323</sup> *Ibid.*

temporarily inhibit an infringing activity in a rapid and cost-effective way.<sup>324</sup>

Finally, Community legislation provides for keeping intermediaries, for instance carriers and forwarding agents, liable for providing services used by third parties to infringe intellectual property rights. Such liability presumes that there is an underlying act of direct infringement, meaning that the objective elements are met. The defendant cannot argue that the subjective elements are not satisfied such as lack of intent. Although intermediaries could be accountable for facilitating the transport of counterfeit goods, still one problem persists, counterfeit goods put under customs transit procedure, as mentioned in the previous chapter, do not necessarily infringe any intellectual property rights. Thereby is the condition of an underlying act of direct infringement not satisfied. Accountability for intermediaries under the US system is in general terms identical with Community legislation. However, the main difference is that the US legislation reach also counterfeit goods put under customs transit procedure.

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<sup>324</sup> Bonadio, E., *Remedies and sanctions for the infringement of intellectual property rights under EC law*, European Intellectual Property Review, 2008, issue 8, p. 320-327.

## 6 Concluding remarks

Counterfeit goods put under the customs transit procedure is in a legal perspective out of reach within the European Community. Counterfeit goods put under the customs transit procedure are not placed on the market, thus not used in the course of trade and consequently falls outside the scope of protection under trademark laws. The Netherlands have circumvented the problem by applying a wide interpretation of Council Regulation 1383/2004 and Finland has included goods put under the transit procedure in national trademark law. In a rule-of-law-perspective is this development not desirable. Council Regulation 1383/2004 must be equally applied throughout the union. Differences in national law are acceptable but unfortunately also hinder harmonization of the Member States trademark legislations. Root to the problem seems to be the lack of political interest or perhaps contradictory interest among various stakeholders.

I cannot see that the ECJ has wrongfully interpreted Council Regulation 1383/2004 or Community legislation related to trademarks. However, the legislation has been interpreted narrowly especially regarding the transit procedure. The ECJ have not emphasised the underlying intents and purposes of the transit procedure as their colleagues in the US. Customs transit procedure allows for the temporary suspension of duties, taxes and commercial policy measures to facilitate movement of goods. These benefits comes with obligations, stakeholders shall abide the law and not use it as a free zone for illegal trade. However, it would of course be naive to believe that all actors abide the law. The trade in counterfeit goods is increasing and it is harmful in many ways, it does not only undermine the system of intellectual property rights but also lower tax revenues and is threatening public health.

The regulatory apparatus of the European Union must act. Council Regulation 1383/2004 must be revisited and include clear regulations regarding goods put under the customs transit procedure, further harmonization through directives on trademark legislation and other intellectual property rights. Decisions in the two pending cases, *C-495/09 Nokia v. HMRC* and *C-446/09 Philips*, before the ECJ will hopefully give a clear guidance regarding counterfeit goods in transit through the European Union. Opinions from respectively AG will be presented in the next few weeks, which could give us an important indication of the future judgments. Whatever the Court decide should the current rules be clarified and applied equally throughout the Member States.

Current legislation does not consider goods in transit put on the market or used in the course of trade and thereby falls outside the scope of protection under trademark law. The aim underlying this condition for a trademark infringement is to distinguish between a private use and a commercial activity with a view to a gain. I am not wholly comfortable with such

reasoning. In my view is every product that is unlawfully labelled with a trademark used in the course of trade, or in other words, in a commercial activity with a view to gain. The very core in a trademark is that it signals a function, a guarantee and/or combined with a reputation. Why unlawfully label goods if it not for the cause of usurps that function, warranty or reputation? Such unrestricted interpretation would not extend the exclusive rights conferred to a trademark but still be limited by the territorial principle.

Difficulties in seizing counterfeit goods at the source and while in transit have increased focus on targeting intermediaries whose services are used by third parties to infringe intellectual property rights. Traditional liability rules found in for instance the Swedish Penal Code has been supplemented by more specific liability rules related to infringement in intellectual property rights. Community legislation provides proprietors with a possibility to apply for injunctions against intermediaries. This kind of legislation is still novel for many Member States and both national courts and the ECJ grope forward. Legislation is vaguely defined and decisions must be taken on a case-by-case basis. *Google v. LV and others*<sup>325</sup> is an interesting case in many aspects. The ECJ found that Google does not use trademarks in the sense that enjoys protection under trademark law but in its role as an information service provider (intermediary) could rely on special exemptions from liability. I am not entirely comfortable with the grounds of that decision but interpret the judgment in whole as an indication that the ECJ is not ready to wholly implement the doctrine of contributory liability. To put it in perspective I recommend reading the judgment in *Google v. LV and others* in the light of the opinion from AG Maduro.

Finally, counterfeit goods in transit will continue to elude proprietors until the European legislators put the foot down firmly and eliminate current loopholes. The US system is a good source of inspiration. Recall, the transit procedure shall facilitate trade, not provide a platform for trading in illegal goods.

Ultimately, greater care should be taken with regard to the trend where more and more responsibility is placed on intermediaries whose services are used by third parties to infringe intellectual property rights. Liability for intermediaries must balance against possible obstacles it could cause to free trade and a free information society.

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<sup>325</sup> C-236-238/08 *Google v. LV and others*, supra note 234.

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