

Brands in the Boardroom 2012

Key branding issues for senior executives

Germany

Contributing firm **Kuhnen & Wacker**

Border seizure in the European Union – a universal legal tool

Under the EU customs regime, rights holders can have counterfeit goods confiscated at the borders. However, it is questionable whether the regime adequately considers the rights of alleged infringers

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The marketing of counterfeit and pirated goods, and indeed of all goods infringing IP rights, causes considerable damage to law-abiding manufacturers, traders and rights holders. In addition, it deceives and in some cases endangers consumers. Counterfeiting is not limited to luxury goods, but affects all industries and product sectors; it is a growing and increasingly dangerous phenomenon. Fake goods should, as far as is possible, be kept off the market.

In particular, rights holders should seek to prevent the sale of infringing articles at the earliest possible opportunity. There are several ways to achieve this goal, one of which is by obtaining a cease and desist order. If the matter is urgent, a preliminary injunction may help to stop the infringer within hours. However, legal steps will be effective only if the rights holder already knows the identity of the infringing party and the nature of the infringing goods. When these issues are unclear, there is a further way to achieve legal justice: through border seizure.

Border seizure allows rights holders to prevent the sale of counterfeit goods and/or the export of such goods with immediate effect. The European Union provides rights holders with a unique and easy possibility: to have goods confiscated at the border. The European Union designed and implemented

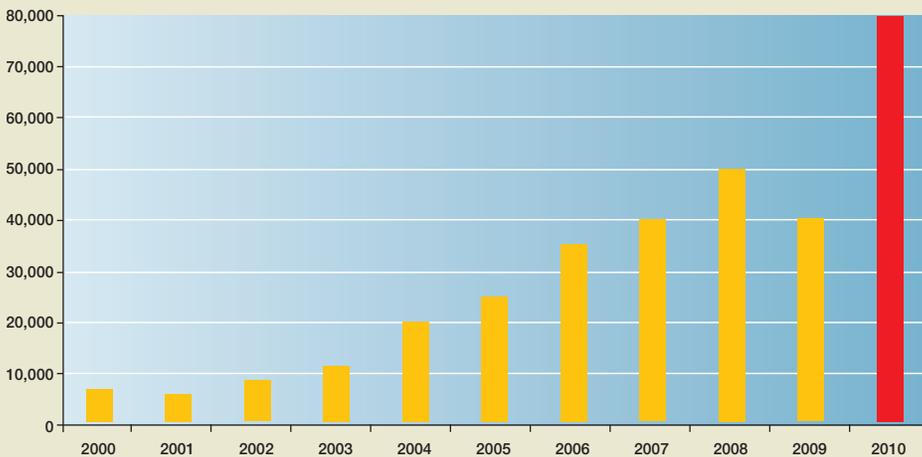
the EU Customs Regulation (1383/2003), which establishes a simplified procedure to enable the customs authorities to enforce border seizure measures as effectively as possible. The regulation is directly applicable in every EU member state, which is one of its major benefits. Owners of a Community trademark, a Community design right, a Community plant variety right, a designation of origin or geographical indication or a geographical designation may take advantage of Community-wide application for border seizure proceedings. The advantage for rights holders is that a decision taken in the member state in which the application is lodged has the same legal effects in all other EU member states.

Background information and figures

Statistics published by the European Commission on 14th July 2011 show an amazing upward trend in the number of shipments suspected of violating IP rights. In 2010 customs authorities within the European Union registered around 80,000 cases, almost double the figure in 2009. It refers to more than 103 million products detained at external EU borders. Cases are thus at an all-time high, and there certainly seems to be a link to increased sales via the Internet.

The Internet is a virtual marketplace offering all kinds of goods, many of which are genuine. Simply by clicking on the “order” button, consumers can have their goods delivered to their front door. The growth in online sales has opened up a new method of distribution for all kinds of infringing goods. Such goods may be of poor quality or even dangerous, and are a challenge for customs authorities to identify and intercept. Also, the administrative burden involved when just one or two items are found in a package is disproportionate.

Number of registered cases



According to the European Commission's report entitled "EU Customs Enforcement of Intellectual Property Rights", the top categories of articles detained were cigarettes, which accounted for 34% of the total amount, followed by office stationery (9%), other tobacco products (8%), labels, tags and emblems (8%), clothing (7%) and toys (7%).

According to the European Commission's report, China continues to be the main source country from which goods suspected of infringing a Community trademark and/or a Community design were sent to the European Union (85%). However, in certain product categories, other countries were the main source – notably Turkey for foodstuffs, Thailand for beverages other than alcoholic beverages, Hong Kong for memory cards and India for medicine.

Applying for border seizure

As mentioned above, it is easy to apply for border seizure measures under the EU Customs Regulation. One of the main advantages for rights holders is that only one single application is needed in order to obtain legal protection in all 27 EU member states. This application must be directed to any of the central offices in the member states.

The motion for border seizure must be submitted by the rights holder or any other person authorised to use that IP right, or a representative thereof. In the case of a foreign rights holder, the owner must be represented either by an attorney at law or by a patent attorney who is admitted in the European Union. The application requires detailed information about the right claimed and the authorisation. Furthermore,

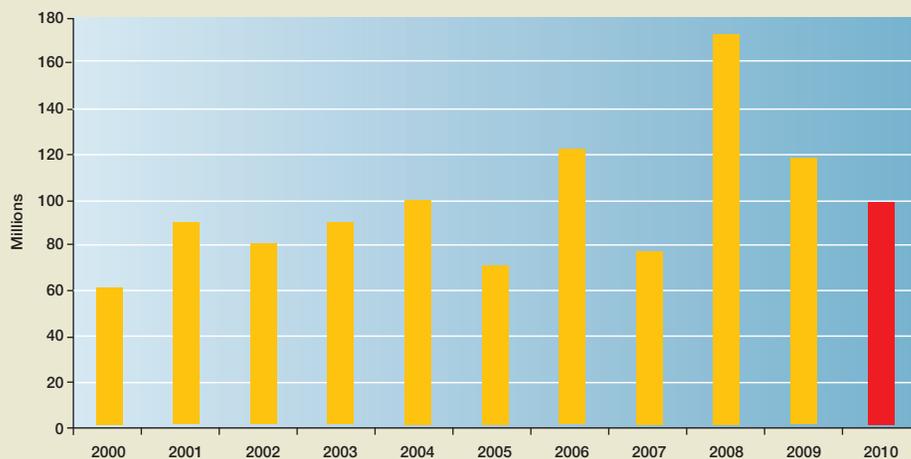
information must be provided with respect to the legal basis on which the border seizure is founded and the goods to be seized. A key aspect is the information on identification to distinguish original goods from counterfeits, which can help customs officers to easily identify counterfeits. The customs authorities should be provided with further information which may be useful for their searches and the confiscation of goods, and which describes the original goods in as much detail as possible so that counterfeits can be identified more easily (eg, photos and comparisons). In addition, information regarding the type of trade and transportation, packaging and/or distribution systems intended for the original goods, as well as distribution channels, is useful for the identification of counterfeit goods. In this respect, it must be considered that documents filed with the border seizure application will be distributed to over 1,000 customs offices and used by the staff there. Therefore, the information provided should be clear, well structured and precise, and be restricted to central, key aspects.

Processing of the border seizure application is free of charge – there are no official fees. However, rights holders may have to bear the costs of the counterfeits' storage, transportation and destruction. Customs authorities must decide on the application for border seizure within 30 working days. If granted, the border seizure application will remain valid for a period of up to one year. A request for extension is possible at any time.

Procedure

The border seizure itself is a measure carried out by the customs authorities. Once the

Number of detained articles



customs seizure application is in place, all customs offices of the EU member states will watch out for and retain suspicious items that are imported into, exported from or shipped through the European Union. The requirement for border seizure is a suspicion that an IP right may be infringed. It is not necessary for the right actually to have been breached with certainty. The customs authorities carry out only a summary inspection to establish the existence of infringement (ie, they do not conduct a detailed material inspection, but merely a simplified check). In the case of technical property rights in particular, the customs authorities do not have sufficiently qualified staff to check for infringements, and in such instances they mostly trust the word of the rights holder.

As soon as the customs authorities suspect an infringement, they suspend the release of the suspected goods. In such instances, the owner of the goods (most likely the addressee), the declarant and the rights holder and/or its attorney are informed of the seizure. The rights holder will – upon request – receive a comprehensive report on:

- The source of the goods.
- The persons involved in transporting and declaring the goods at Customs.

According to the EU Customs Regulation, the customs office shall give the applicant and the persons involved the opportunity to inspect the goods whose release has been suspended or which have been detained. This inspection is usually done by forwarding high-quality photos via email. The regulation grants the rights holder a 10-day period from notification of the

seizure (or only three days in the case of perishable goods) in which to notify the customs authorities of the infringement and to initiate legal proceedings (ie, main action or preliminary injunction). Alternatively, the rights holder may also apply the simplified procedure as stipulated in Article 11 of the regulation. In order to benefit from the simplified procedure, the rights holder must:

- Inform the customs authorities in writing, within 10 working days, that the goods concerned by the procedure infringe an IP right.
- Provide the authorities with the written agreement of the declarant, the holder or the owner of the goods to abandon the goods for destruction.

It is recommended that the rights holder forward a warning letter to the declarant or owner and request it to agree to the destruction. If the declarant or holder does not reply and/or has not specifically opposed destruction within the prescribed period, the agreement will be presumed to have been accepted. If, however, the declarant does not consent to the destruction of the goods and such consent cannot be presumed, the rights holder must decide whether to initiate legal action. Again, this must take place within 10 working days, which can be extended by an additional 10 working days.

The rights holder is always liable to pay compensatory damages for goods destroyed, unless the goods were to be destroyed in any case for reasons of infringement.

Costs and compensation

The processing of applications for border seizure by the customs authorities is free of official charges. However, the state may make

refund claims for costs incurred through storage and destruction of the goods concerned. This is regulated by Article 6 of the EU Customs Regulation, which provides for a declaration to bear costs by the rights holder. Other expenses incurred by the customs authorities in connection with the retaining of the goods (eg, the costs of the goods' transportation and storage) must be paid by the applicant. A duty of cost reimbursement by the infringer is not included in the regulation.

Therefore, the rights holder must consider whether and by whom it may be reimbursed for costs imposed on it after the goods have been destroyed in the border seizure proceedings and it has received the information on costs. If the right was culpably infringed, claims for damages are available (eg, based on trademark law). The costs incurred by the rights holder are considered to be damages and must therefore be reimbursed. However, this liability is in practice often of little use to the rights holder, either because the infringer often cannot be identified or because a court proceeding does not seem worth the effort. Thus, it is recommended to include a stipulation in the agreement, according to which the undersigned undertakes to assume all costs of the proceeding when preparing the declaration to consent to the destruction.

More often than not, such declarations are signed and customs authorities can directly deal with the undersigned. Generally, however, claims for cost reimbursement frequently lead to problems.

Critical aspects

EU customs authorities – in particular those in Germany, Austria and the Netherlands – are highly motivated and work very efficiently. According to an EU report, in 2008 EU customs authorities seized over 178 million products that were found to infringe IP rights. The importance of and necessity for the EU Customs Regulation are widely recognised in order to pursue and limit counterfeits within the European Union. All in all, the regulation can be described as effective and efficient, and it has become increasingly popular with rights holders. The procedure is simple and there are generally no problems in the cooperation with customs authorities. Also, in most cases the simple procedure is sufficient, so that no suit need be filed. The addressee of goods that were actually counterfeit is usually interested in avoiding additional costs and therefore actively consents to destruction in most cases – this is particularly true in relatively simple cases.

However, when looking at the stipulations of the regulation, it becomes clear that the regulation might not sufficiently consider the legal rights of alleged infringers. It is questionable whether the European system offers adequate protection for the alleged infringer against the damages that can occur as a result of the unjustified suspension of goods. A suspension of goods which is followed by a justification action has consequences equivalent to those of a preliminary injunction or seizure of goods. One possibility would be to require the rights holder to place a guarantee with the court so that the alleged infringer did not have to make unreasonable efforts to collect any damages and costs awarded from the rights holder in the event that the interim proceedings were unjustified.

Another aspect which is frequently criticised is the fact that the decision to suspend the release of the allegedly infringing goods rests solely with the customs authorities, which – presumably – do not have the same legal expertise as the courts which decide whether goods should be seized in ordinary interim proceedings (eg, civil *ex parte* searches, preliminary injunctions or seizure of goods). The initial decision to suspend the release of allegedly infringing goods is made without giving the alleged infringer an opportunity to defend itself. Moreover, the legal aspects of the alleged infringement are not assessed by a judge or any other person who is experienced in the legal aspects of counterfeiting.

This suggests that the effective and swift protection of rights holders is clearly to the detriment of alleged infringers. In considering the interests worth protecting in such situations, the EU legislature clearly decided in favour of rights holders. In obvious cases, this is justified. However, it must also be considered that the provisions of the EU Customs Regulation can be misused to prevent potential competitors from importing or exporting their goods for a certain period. Thus, a presentation at a trade fair can be prevented from taking place, which could cause incalculable damages. Arguably, the regulation still requires some adjustment in order to provide protection against misuse. ■

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