



European border detention orders

Lisa Peets and **Victoria Hanley** of Covington & Burling examine a useful tool for right holders

Council Regulation (EC) No 1383/2003 “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” (Regulation) is an important tool for right holders seeking to prevent IP infringing products from entering the European Union. Specifically, the Regulation lays down the conditions for customs action where goods are suspected of infringing IP rights and the measures to be taken against goods that have been found to infringe IP rights.

This article provides an overview of the Regulation and discusses the practicalities of its application for right holders; describes the ongoing EC review that could lead to an extension of the scope of the Regulation and a stronger position for right holders and summarises recent developments that have taken place in the UK.

An overview of the regulation

As well as applying to counterfeit (ie trademark infringing) goods, right holders can also invoke the Regulation against patent-infringing goods, goods infringing supplementary protection certificates (SPCs), pirated goods, goods infringing protected designations of origin, plant variety rights and protected geographical indications and designations as well as against any “mould” or “matrix” designed or adapted for the manufacture of goods infringing an IP right.

Despite the Regulation’s breadth, however, there are some important exceptions: the Regulation does not apply to: (i) parallel imported goods, (ii) goods manufactured

under conditions different from those agreed to by the right holder, and (iii) goods contained in travellers’ personal luggage.

It is also worth noting that while the Regulation applies directly in all EU Member States, many EU Member States have enacted additional national measures enabling their customs authorities to take action in circumstances not covered by the Regulation. For instance, unlike the Regulation, German national law provides for the retention of goods manufactured under conditions different from those agreed to by the right holder.

Obtaining a border detention order

The Regulation provides a mechanism that enables customs authorities to issue border detention orders (BDOs) against potentially infringing goods. Once they have identified the potentially infringing goods, the authorities will detain them pursuant to the BDO and will notify the right holder. The right holder will be given an opportunity to inspect the goods; upon inspection, the right holder can (i) request a customs seizure, and/or (ii) take further measures concerning the detained goods.

The BDO process works as follows: Where the right holder becomes aware of goods suspected of infringing those IP rights enumerated in the Regulation, the right holder may, free of charge, lodge a written application for a BDO with the relevant customs department. The Regulation provides for two types of procedures: a national application where the action of customs authorities in only one Member State is requested, and a Community application

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where action is requested in more than one Member State. The Community procedure applies to goods protected by a Community trademark, Community design right, Community plant variety right, a designation of origin or geographical indication or a geographical designation protected by the Community.

It is advisable to submit an application for a BDO at least 30 days before the requested action should be taken. The application must include:

- proof that the applicant holds IP rights in the goods
- an accurate and detailed “technical” description of the goods in question
- any information concerning the nature of the infringement and
- the name and address of a contact person appointed by the right holder.

Within 30 working days of receiving an application for action, the competent customs department must notify the applicant in writing of its decision. If it accepts the application – i.e. if it agrees to take action to detain the goods identified – the customs department sets a period during which the action must take place. This period may not exceed one year, but may be extended on expiry. The decision to take action is also notified to the customs offices concerned.

If a BDO is granted, the authorities can detain the identified goods for up to 10 working days, within which time the right holder must notify the customs authority that legal proceedings against the infringer have been initiated. Customs has the discretion to extend this period for an additional 10 working days. If the applicant fails to initiate proceedings within the relevant period, then the authorities will release the goods; otherwise the goods remain in the authorities’ custody until the end of the proceedings.

Separately from the right holder’s option to apply for a BDO, where customs authorities have sufficient reason to suspect that goods infringe an IP right they have the power to act on an *ex officio* basis. Through *ex officio* measures, customs authorities may suspend the release of the suspect goods or retain them for three working days, during which time the right holder must submit an application for action. In accordance with the rules in force in the particular EU Member State concerned, the customs authorities may ask the right holder for information to assist with their investigation.

While an application for the BDO itself is

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free of charge, there are potential costs. All applications must contain a declaration from the right holder to pay all costs and liabilities incurred under the EC Regulation where the procedure is discontinued owing to an act or omission by the right holder or in the event that the goods in question are subsequently found not to infringe an intellectual property right.

As well as compensation to the other persons involved in the procedure for any loss suffered if the goods are found not to infringe the intellectual property right, this indemnity could also include costs involved with keeping the goods under customs control (e.g. storage costs, legal costs and costs incurred in the destruction of goods).

The Regulation also permits EU Member States to set up a “simplified” procedure enabling the customs authorities to authorise the destruction of goods detained pursuant to a BDO, without there being any need to determine whether an IP right has been infringed under national law. The simplified procedure is subject to:

- (i) the right holder’s agreement of its use;
- (ii) the right holder informing the customs authorities that the goods infringe an IP right
- (iii) the declarant, the holder or the owner of the goods agreeing to destruction and
- (iv) the destruction being carried out at the expense and under the responsibility of the right holder. Simplified procedures are used, for example, in France and Germany, and have recently been implemented in the UK (see later discussion).

In the absence of the simplified procedure being followed, as noted above, where goods are detained under a BDO, the right holder

must initiate proceedings in the relevant national court to determine whether an IP right has been infringed within 10 working days (three for perishable goods) of receipt of the notification of detention or of suspension of release. If, within these 10 days, the customs office is not notified of the initiation of proceedings or has not received the agreement to follow the simplified procedure, the detention order will be lifted and the goods released once the necessary customs formalities have been discharged.

Goods found to infringe an IP right according to the law of the Member State where action is taken may not be brought into or withdrawn from the customs territory of the Community; released for free circulation; (re)exported; or placed under a suspensive arrangement, in a free zone or free warehouse. Instead, such goods must be destroyed or disposed of outside commercial channels, which may include handing the goods over to charitable organizations or for use as training or educational aids.

EC review of regulation 1383/2203/EC

Significantly for right holders, the Commission is currently reviewing the Regulation and the relevant implementing provisions that are included in Commission Regulation 1891/2004/EC. The review will focus on a number of issues in order to clarify and harmonise the Regulation’s interpretation and application across Member States.

The Taxation and Customs Union Directorate of the European Commission, (DG TAXUD), is taking the lead on this review; their conclusions will result in a proposal to be submitted to the Council of the European Union. There is currently no fixed timetable for the Commission’s review and no formal consultation is planned. However, DG TAXUD has asked relevant stakeholders to provide input and welcomes comments from those with whom it has not already informally consulted. On completion of the review, a proposal to modify EC customs legislation in accordance with the findings will be submitted to the Council.

Among the issues DG TAXUD are considering are:

The regulation’s application to the transshipment of goods

Among the most controversial questions DG TAXUD will tackle in its review is the parameters of customs’ ability to act in cases where allegedly infringing goods are being transhipped through the EU. The current

EC customs framework does not permit right holders to rely on EC legislation to detain IPR-protected goods that are merely transported through the EU. This is a question that has been discussed by national courts in relation to both trademark and patent infringement and by the ECJ in a preliminary ruling concerning the interpretation of the Trademark Directive (Directive 89/104/EC updated by Directive 2008/95/EC). In its 2006 ruling in the Montex case (C-281/05), the ECJ held that: “the proprietor of a trade mark can only prohibit the transit through a Member State in which that mark is protected of good 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 the goods are subject to the act of a third party while they are placed under the external transit procedure which necessary entails their being put on the market in that Member State of transit.”

In its decision, the ECJ also addressed what had until then been an open question – whether a separate piece of EC legislation, the Border Control Regulation (Regulation 3295/94/EC, updated by Regulation 1303/2003/EC), might give rise to a potential cause of action. The ECJ concluded that: “none of the provisions of Regulation 3295/94 introduces a new criterion for the purposes of ascertaining the existence of infringement of trade mark law or to determine whether there is a use of the mark liable to be prohibited because it infringes that law.”

Significantly, prior to the ECJ’s decision in Montex, several national courts – including the Dutch Supreme Court – had concluded that the Border Control Regulation did apply to the external transit of goods. Another Dutch court in the Hague last year handed down an interim decision, which reflects this conclusion by finding in favour of a patent owner seeking to detain goods that were being transshipped from China to Brazil (Sisvel v Sosecal, Case No 311378 of 18 July 2008). The Dutch Court agreed with the patent owner, who argued among other things that interpreting Montex as preventing right holders from taking action against counterfeit goods in external transit, customs warehousing or transshipment would render the Regulation ineffective.

Courts in other Member States have taken a different approach, however. In 2009, the Sisvel case was cited before the UK High Court, where Nokia sought to challenge the

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UK Custom’s refusal to detain a consignment of Nokia mobile telephones under the Border Control Regulation. Nokia also sought to rely on Recital 8 of the Border Control Regulation, 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.”

Mr Justice Kitchin ruled that Nokia could not establish that its trademark had been infringed as the goods were merely being transported from one third country to another via London and not placed on the market. His judgment relied upon the fact that Recital 8 is not echoed in the substantive body of the Regulation and that “a mere risk that the goods may be diverted is not sufficient to justify a conclusion that the good have or will be put on the market”. In his judgment, Mr Justice Kitchin recognised that the outcome would be an unsatisfactory result for right holders and called for a review of measures available to combat international trade in fake goods by preventing their transshipment through member states.

Based on the Montex case, some right holders have expressed their dissatisfaction at being left with no remedy to fight infringing goods in the event of the transshipment of counterfeits.

A mandatory simplified procedure

DG TAXUD will also look at the Regulation’s provisions concerning the application of the “simplified” procedure. As described above, the Regulation as drafted allows Member States to decide whether or not to implement a simplified procedure - this has resulted in a fragmented approach across the Community. Up until earlier this year, for example, the UK had abstained from implementing such a procedure (see later discussion), while such procedures have long

existed in other member states such as France and Germany.

Extension of the scope of the regulation to parallel imports

The exclusion of parallel imports from the Regulation continues to be an issue of concern for industry. Accordingly, DG TAXUD is also discussing the possible extension of the scope of Regulation 1383/2003/EC to cover parallel imports. The inclusion of parallel imports in the Regulation’s scope was contemplated over a decade ago, when the previous Regulation 3295/94 was amended to cover patented inventions in 1998. Ultimately, the Commission concluded that the extension to parallel imports would be inappropriate; the European Parliament seconded this conclusion, but stated that a similar instrument may be envisaged in the future to tackle diverted goods.

Access to and use of Customs information

The question of the Regulation’s relationship with parallel imports has recently been reviewed before the European Court of Justice (ECJ), separately from the Commission’s review. The Advocate General (AG) considered the question of whether right holders can use information provided by customs pursuant to Regulation 1383/2003/EC for purposes other than the procedures set out in the Regulation. AG Colomer handed down his opinion to the Court on 8 April 2008, in which he advised the Court to rule that right holders can use such information as evidence in infringement cases relating to parallel imports. Although the AG’s opinion is not binding on the Court, the Court tends to follow the AG’s opinion in the majority of cases. The parties in the case have now settled so the ECJ will not hand down a judgment. However, should this point of referral be challenged before the ECJ in the future, right holders means of tackling parallel imports may be extended.

Misuse

In the context of the European Commission’s

recent inquiry into the pharmaceutical sector, importers claimed that the general procedure for the detention of goods is prone to misuse, as customs authorities have no obligation to assess whether an infringement exists and there is no fee for obtaining a BDO. Such misuse may lead to delays for importers of up to four weeks, or even longer where right holders may be inclined to resort to legal proceedings even where chances of success may be low. These comments will presumably also be taken into consideration in the Commission's review of the legislation.

Recent UK policy changes

Significantly, on 22 June 2009, the UK Customs Authorities published a letter stating that they intend to revise their customs policy by implementing a simplified procedure based on Article 11 of the Regulation. While these revisions, described below, bring the UK more closely in line with EC rules, they will limit right holders' options.

Until now, UK practice has been to seize items based on a witness statement from the right holder as confirmation that the goods are infringing. The owner of the

allegedly-infringing goods could later challenge the seizure through judicial proceedings. Under the new rules, however, the right holder must now confirm the infringing nature of the goods by filing legal proceedings. This represents a dramatic change in the UK approach and one which will make it more difficult for trademark owners and other right holders to stop shipments of counterfeit and diverted goods from entering the UK (and the EU more broadly).

Legal action must now ordinarily be commenced within 10 working days of the right holder receiving notification of detention of the allegedly infringing goods and at the latest within 20 working days (according to the requirements of the EC Regulation, the detention period cannot exceed 20 working days in the absence of legal action). This change in practice was implemented as of 3 July 2009 in order to bring UK practice fully in line with the EC Regulation.

Conclusion

BDOs are a useful tool in the fight against counterfeit goods. Right holders will want to monitor the Commission's proposals to

reform the system in order to ensure that current level of protection is not diminished, as is the case with the recent policy changes implemented in the UK. Right holders may also want to take the opportunity to enter the discussion at a European level to express their views on this reform, including on key issues such as the extension of the provisions of Regulation 1383/2003/EC to cover parallel imports and transshipment of goods. 

Notes

- 1 The majority of European Border Detention Orders (BDOs) concern trademarks. Statistics show that 97% of BDOs concern trademarks, whereas only 5% concern patents, 2% copyright and related rights, and 1% designs and models.
- 2 The Regulation provides for goods to be released early, provided the declarant, owner, importer or consignee of the goods provides a security that is sufficient to protect the interests of the rights holder. If, however, the proceedings to determine whether the detained goods are infringing are initiated outside of the maximum 20 working day period, then the security shall be released.



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