

Comments on the Proposal for a Regulation of the European Parliament and of the Council concerning customs enforcement of intellectual property rights (COM (2011) 285)

August 2011

I. Executive Summary

The growth in counterfeiting over recent years has resulted in increased focus by governments and industry worldwide for more effective measures to combat counterfeiting. The International Trademark Association (INTA) applauds the steps the European Union has taken to strengthen anticounterfeiting measures through various legislative and cooperation building initiatives in recent years. An important initiative is the proposal for a new Customs Regulation to replace Council Regulation 1383/2003.

INTA is a global organization founded in 1878 with over 5700 members established in 190 countries, including all 27 EU Member States and candidate countries. One of INTA's key goals is the promotion and protection of trademarks as a primary means for consumers to make informed choices regarding the products and services they purchase. INTA believes that nations must work together and exchange information and ideas that will eliminate the threat posed by counterfeit goods. INTA also believes that it is in the interest of countries to have the strongest enforcement mechanisms possible to protect the investment climate and employment, and reduce the loss of tax revenues that are directly affected by the lack of efficient enforcement mechanisms and protections against trademark counterfeiting. Accordingly, INTA strongly advocates policies to advance protection against trademark counterfeiting and infringement.

Customs officials are key in stopping counterfeits from crossing borders into the EU Member States as well as into other non-EU countries. Coordination of customs efforts within the EU needs to continue to be strengthened. INTA has welcomed the most recent EU Customs Action Plan which includes initiatives to collaborate more closely with National Customs in the EU as well as with industry stakeholders. INTA has also actively engaged with the European Commission through meetings and submission of comments throughout the review process of the Council Regulation, including the Commission Consultation on the review of EU legislation on Customs enforcement of intellectual property rights in May 2010. INTA's comments are based on the analysis of the implementation of relevant areas of the current Customs Regulation in the Member States, as well as practical experiences of our members.

INTA welcomes efforts to strengthen protection of IPR through the recent EU Customs Regulation Proposal which suggests improvements in several areas of the current Regulation that will raise the overall level of enforcement of IPR. Welcome improvements include making mandatory the simplified procedure and recognizing the increasing role small consignments are playing in the distribution and movement of counterfeits.

We highlight a selection of key points on our views on the Commission's proposal. For more information, please refer to our detailed comments from page 3.

1. Scope

INTA notes that one of the purposes of amending the current Regulation is to extend it to other types of infringements (such as parallel imports) and other types of IPR, thereby strengthening the enforcement of IPR overall (Recital 5). We are however concerned that expanding the scope will adversely affect the protection of rights holders and consumers against the most egregious forms of trademark infringement, i.e. counterfeiting, as more resources will be needed to cover the expanded scope. We urge that the combat against counterfeiting be set as the highest priority and that sufficient resources be allocated.

2. Use of information / information sharing

Because counterfeiters' networks expand across borders, information sharing between customs and rights holders, as well as among enforcement agencies is needed in order to effectively track down and stop counterfeiters. We believe that the proposal should provide clearer language that would allow information collected on goods that have been confirmed to be counterfeit to be shared with customs in third countries and used by rights holders to take further action. This will allow not only customs, other enforcement officials and rights holders to stop the goods at the point of discovery, but also to determine the origin of the counterfeit goods so that efforts can be made to stop the manufacture and distribution in the earlier stages of the supply chain.

3. Small consignments

INTA applauds the Commission's recognition of the increasing role small consignments play in the distribution of counterfeits in the proposal. However, we would urge for the term "small consignments" to be clarified. This is because, at the practical level, consignments often contain several items that infringe the rights of several trademark owners and that, if added together, would exceed the threshold for small consignments. For this reason, we would recommend that "small consignments" be further clarified so as to avoid situations such as those described above.

4. Goods in transit

INTA strongly supports increased enforcement and detention of counterfeit goods in transit through the Member States whether the goods are bound to a destination within or outside of the EU. The protection of legitimate trade in generic goods (such as generic medicines) is of critical importance. However, the protection against fake goods, which often have harmful impacts on consumer safety and health, is of equal importance. The benefits of both protections must be recognized and provided for in legislation. By removing the explicit prohibition of transshipment of counterfeits from the current text and by placing more emphasis on the protection of generic medicines in the proposal, we believe that the EU has taken a step back on this critical issue. Whether in the Customs Regulation or through another avenue, we urge the Commission to address the current gap in enforcement against suspected counterfeits in transit.

II. Detailed Comments on the Customs Regulation Proposal (COM (2011) 285)

INTA applauds the steps the European Commission has taken to improve the effectiveness of Council Regulation 1383/2003 through the Proposal for a Regulation of the European Parliament and of the Council concerning Customs enforcement of intellectual property rights (IPR).

As noted above, the Proposal suggests improvements in several areas of the current Regulation that will raise the overall level of enforcement of IPR. In particular, we welcome the following improvements¹:

- Article 22(2) enables Customs to move goods from one Member State to another for destruction. Presumably Customs will also need to consider other legislation that sets the conditions for the movement of certain types of products such as potentially hazardous material across borders.
- The so-called “simplified procedure” has been made mandatory for all Member States. This is a positive development, though we believe some challenges may be encountered at the practical level, which is explained in further detail below.
- The Proposal recognizes the increasing role that small consignments are playing in the movement and distribution of counterfeits. We welcome the measures outlined in Article 24, which specifically addresses small consignments. As with the improvements made in the simplified procedure, we believe some challenges during the implementation stage may arise.
- INTA welcomes the change from “all costs” to “costs incurred by the Customs administration” in Article 27 and the statement that Article 27 is without prejudice to the holder of the decision’s right to seek compensation. A lack of clarity in the current Regulation provided opportunities for those involved with seized consignments to seek to unfairly shift the burden of meeting storage and destruction costs onto rights holders.
- Article 6(3)(k), Article 11(3) and Article 12 proposes a better regime for dealing with the renewal and removal of lapsed IPR from records by facilitating an easier process to add new rights in the recordal system.

While the Proposal makes notable headway in strengthening the enforcement of IPR, it also has modified several provisions that may present challenges to enforcement against counterfeiting specifically. We provide our comments below which we hope will facilitate the tasks and responsibilities of the customs officials as well as strengthen efforts to protect against counterfeits.

¹ Please note that our comments are limited to trademark issues.

Recommendations

1. Scope of the Proposal

INTA notes that one of the purposes of amending the current Regulation is to extend it to other types of infringements (such as parallel imports) and other types of IPR, thereby strengthening the enforcement of intellectual property rights overall (Recital 5). We applaud the Commission's drive to enhance enforcement to align with the Commission's Europe 2020 strategy for a smart sustainable growth that includes the protection of IPRs. We are, however, concerned that expanding the scope will adversely affect the protection of rights holders and consumers against the most egregious forms of trademark infringement, i.e., counterfeiting, as more resources will be needed to cover the expanded scope. Therefore, we urge that the combat against counterfeiting be set as the highest priority and that sufficient resources be allocated.

2. Definitions

INTA has the following comments regarding the text of the Proposal:

- i. *Inclusion of references to packaging and trademark logos* - In Article 2(5), the references to packaging and any trademark symbol (including a logo, label, sticker brochure, instructions for use or guarantee document) even if presented separately have been removed from the definition of 'counterfeit goods' in the Proposal. By removing the references to these infringements there is a risk that Customs will consider these situations as no longer covered by the Regulation, which is likely not the intention of the Proposal. ***We would recommend that explicit references to counterfeit logos, stickers, brochures, packaging, etc be included once again in the text of the Proposal.***
- ii. *Article 4* – We believe this article is vague with regards to which person is entitled to submit an application. Article 4(2) and 4(3) clearly say that more than one person can make an application, but are not clear on whether they can all be named in one application. If not, Article 4(3) looks very narrow as it states that the person applying has to be able to be an exclusive licensee "in the Customs territory of the Union," which suggests they have to be licensed for the whole of the EU. Similarly, under Article 4(4), it seems he/she has to be able to bring an action in any and all territories in the EU. However, there may be various exclusive licensees in different territories. ***We encourage further clarification of Article 4 to address these concerns.***

3. Rights Holder Obligations

Cooperation and exchange of information between rights holders and Customs are critical in identifying and capturing counterfeits. However, INTA believes that the current language in the Proposal unfairly burdens rights holders.

Firstly, Article 6(3)(1) requires rights holders to forward and update "any [emphasis added] information relevant to the Customs authorities' analysis and assessment of the risk of infringement." This seems a very wide undertaking to give since even the most minor detail can arguably be considered relevant. ***We recommend that rights holder obligations should fairly balance the needs of Customs with rights holder's limited resources.***

Secondly, INTA is concerned that the draft gives Customs the power to impose severe sanctions on any rights holder who decides not to initiate action to determine whether a right has been infringed (Article (15(2)(d)). Rights holders should not be penalized for not electing to enforce their rights for reasons such as cost. This is also likely to deter small and medium-sized enterprises (SMEs) that are wary of the potential costs of civil action.

Lastly, the procedural changes prior to and after the decision to detain seem potentially burdensome on Customs. Article 16(2) and (3) seem to provide that Customs may notify the rights holder that they are considering detaining a consignment, but that they shall notify the declarant or holder. Furthermore, the timeline in Article 23 is unclear and raises questions such as at what point will Customs notify the rights holder that the importer objects to destruction and will this give the rights holder sufficient time to commence action. ***We recommend that Article 16(2) and 16(3) be further clarified.***

4. Use of Information

Due to the international nature of counterfeiting and counterfeiters' expansive networks across borders, it is critical that Customs and rights holders be able to share and use information between and among themselves in order to track networks and routes used by counterfeiters. Article 19 of the Proposal permits a rights holder to use information to commence an infringement action or to seek compensation, but not to pass intelligence to other enforcement authorities, for example to Customs in third countries, or to commence investigations to try to establish the party ultimately responsible for the infringement. This not only poses serious challenges to rights holders and Customs in coordinating at the regional level, but also inadvertently continues to shield the identity and activities of counterfeiters. INTA believes that once the goods have been confirmed to be counterfeit (i.e., through civil proceedings or under the simplified procedure), the protection of existing and collected data regarding the counterfeiter and his/her illegal products should fall away so that rights holders have the ability to take further action to deter the entire counterfeit supply chain. This will allow rights holders and enforcement officials to not only stop the goods at the point of discovery, but also to determine the origin of the counterfeit goods so that efforts can be made to stop the manufacture and distribution in the earlier stages of the supply chain. ***Therefore, we recommend that Article 9 allow for information collected to be made available to customs authorities in third countries and provide rights holders the ability to use the information in order to take further action against the counterfeiter.***

5. Small Consignments

INTA welcomes the recognition of growing challenges in addressing counterfeit goods in small consignments. Recital 13 and Article 24 of the Proposal provide a specific procedure for small consignments, which aims to reduce the administrative burden and costs to a minimum. We support the spirit of these proposals, but are concerned with how the Proposal would be implemented. Article 24 states that counterfeit or pirated goods in small consignments can be destroyed without interference (and knowledge) of the rights holder. Although this provision seems to

be a sensible regime and the reduction of costs for brand owners for small shipments is welcomed, it also raises some uncertainties and questions.

First, the definition of "small consignments" is unclear. Article 24(10) empowers the Commission to adopt delegated acts to establish the thresholds for this provision. It is important to realize that in practice, consignments frequently contain a number of items infringing the rights of different rights holders and the total number of products could then exceed the threshold set for small consignments. If the small consignment procedure could not be applied in those situations, this would be contrary to the goal of reducing the administrative burden and costs. ***Consequently, the definition of "small consignment" should be clarified.***

Secondly, since Customs is only entitled to act on the basis of Article 24, if an application has been granted, Customs will likely have information on how to determine the authenticity of the good. However, in practice, it will remain difficult for Customs to reach an accurate conclusion without consultation with the rights holder. Furthermore, Article 24 does not provide for an obligation for Customs to inform the rights holder (on a daily, weekly, or monthly basis) of the amount of shipments/products handled under Article 24 and the IP rights involved. For rights holders, this information is important in order to analyze trends, seek to link consignments, evaluate and adjust their anticounterfeiting strategy. ***We recommend that the article allow for Customs to consult with the rights holder to reach an accurate conclusion of the genuineness of the product as well as to provide information relating the amount of products handled under Article 24.***

6. Simplified Procedure

In the Proposal, the simplified procedure has been made mandatory for all Member States through Article 23, which INTA fully supports. We suggest to create an alternative that a written agreement regarding destruction which is issued by the declarant/holder of goods can be sent to Customs by the rights holder (now called: "the holder of the decision granting the application"). ***We would propose to delete from the proposed Article 23(1)(b), the following expression: "... to the Customs authorities."*** Consequently, there remain two alternatives of presenting the agreement of the declarant/holder: by himself and by the rights holder. In the latter case, the rights holder would have sent a warning letter to the declarant/holder and, in response, succeeded in obtaining his written agreement to destruction in the event the declarant/holder fails to respond.

7. Personal Exemption

We note that in Article 1 quantities for personal use are explicitly excluded from the Regulation. As stated in our previous submissions, we believe such an explicit exemption implies that it is acceptable to use and buy counterfeits. This message is contrary to the messages conveyed by many government sponsored public awareness campaigns in the EU. ***We continue to urge for this provision to be deleted from the Proposal.***

8. Goods in transit

INTA recognizes the challenges involved with the issue of goods in transit, specifically as it relates to the legitimate trade of generic medicines. However, the distinction between protection of legitimate generic goods and protection against illegal fake goods must be clear and the benefits of both protections must be recognized. In the case of medicines, it is equally important for consumers to have access to legitimate generic medicines as it is for them to be protected from fake medicines that are oftentimes ineffective or contain toxic ingredients. In this regard, INTA and many organizations have called for strong enforcement against counterfeit goods. We also have encouraged the recognition of and actions to address the trend of counterfeit goods being sent in transit through EU Member States and the dangers that it poses to end-users. Recognizing and taking action against fake goods in transit will be an important element for the EU to “complement...trade initiatives with third countries and in internal fora” (Explanatory Memorandum 1(2)).

We believe that the Proposal has taken a step backwards in addressing this trend by removing the expressed prohibition of transshipment of counterfeit goods in Recital 3 of the current Regulation 1383/2003², in addition to other observations we make below. ***We urge that at a minimum, there is an explicit recognition of the dangers of counterfeit goods in transit and that steps are taken to remedy some of the concerns below.***

- i) The Proposal clearly distinguishes between procedural acts of Customs and substantive laws on intellectual property infringement (Recital 6, Article 1(3) etc). It is quite clear, therefore, that customs authorities will have no power to seize counterfeit goods in transit unless under substantive trademark law such action will amount to infringement, which it will not if the Court of Justice of the European Union (CJEU) follows the AG’s Opinion in the *Philips* and *Nokia* cases.
- ii) Recital 8 of Regulation 1383/2003³ has been deleted, thereby removing any basis for national courts to apply the so-called “manufacturing fiction.”
- iii) Under the Proposal, Customs will be required to “assess a risk of infringement.” Recital 17 outlines guidelines for assessing such risk in the case of medicines in transit, requiring a “substantial likelihood of diversion,” although it is not reflected in the body of the Proposal. This appears to set a higher test for potentially fake medicines than other suspected fake goods which may also endanger consumer health and safety.
- iv) Explanatory Memorandum 1(1) clarifies the Commission’s commitment to safeguard the legitimate trade in generic medicines. However, the threat

² (3) In cases where counterfeit goods, pirated goods and, more generally, goods infringing an intellectual property right originate in or come from third countries, their introduction into the Community Customs territory, including their transshipment, release for free circulation in the Community, placing under a suspensive procedure and placing in a free zone or warehouse, should be prohibited and a procedure set up to enable the customs authorities to enforce this prohibition as effectively as possible.

³ (8) 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.

posed by fake medicines transiting through the EU to developing countries has not been sufficiently acknowledged. Significantly, the Proposal fails to distinguish between legitimate trade in generic medicines and the threat posed by fake medicines.

- v) The definition of "counterfeit goods" (Article 2(5)) could cause some confusion. "An action infringing a trademark" requires legal assessment of the action (e.g. transit). Customs should not be in the position to make a legal assessment on whether the good actually infringes a trademark. Rather, it should be enough that the goods "bear without authorization a trademark identical to the trademark validly registered."

9. Transitional provision (Article 36)

The proposed transitional provision (Article 36) stipulates that: *Applications for action granted in accordance with Council Regulation (EC) No 1383/2003 shall remain valid for the period specified in the decision granting the application during which the customs authorities are to take action and shall not be extended.*

INTA believes that there are no obstacles to allow decisions granted in accordance with the existing Regulation to be also extended under the new Regulation. Such option, instead of filing completely new applications, would be less burdensome to the rights holders and customs officials alike. There are few differences between the contents and requirements of applications/decisions under the existing Regulation and under the planned one. Such new requirements, as for example additional undertakings provided for in Article 6(3)(k) – (o), could be simply completed upon extension of each "old" decision. It would be a more user-friendly approach for both rights holders and customs officials.

INTA proposes the following wording of Article 36: "Applications for action granted in accordance with Council Regulation (EC) No 1383/2003 shall remain valid for the period specified in the decision granting the application during which the customs authorities are to take action and can be extended for further periods in accordance with Article 11 of this Regulation. However, upon first extension, they must be accompanied by the applicant's undertakings required under Article 6 (3) (k) – (o) of this Regulation."

About INTA

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