

Border Detention Of Patent Infringing Goods In The European Union

By Christoph Cordes

Border detention proceedings are an important tool for safeguarding patent protection: On application of the right-holder customs authorities detain goods which are suspected to infringe intellectual property rights. After a short period of time, customs officials destroy the goods unless the importer objects which triggers court proceedings to verify the alleged intellectual property right infringement. This article will review border detention proceedings in the European Union and will advise as to the dos and don'ts.¹

I. Introduction

Product piracy has been an issue of increasing importance over the last decade and most likely will continue to be in the foreseeable future. While product piracy initially focused on the counterfeit of luxury goods, today everyday life's consumer goods are equally subject to counterfeiting as pharmaceuticals or even spare parts for the aviation industry.² With margins comparable to drug trafficking and criminal punishment being almost nonexistent, product piracy has evolved into a major branch of organized crime. The International Chamber of Commerce roughly estimates pirated goods to account for some 10 percent of the worldwide trade in goods, which would equal turnovers of some 500 billion Euros. The vast majority of pirated goods imported into the European Union originate from the Far East followed by imports from the U.S., Thailand and Turkey.³ There are no official statistics as to the routes of importation. However, it is likely that most imports will enter the European Union through its major ports, Rotterdam, Antwerp, and Hamburg.⁴

To put an end to product piracy or at least to significantly impair it is the purpose of border detention

proceedings. These proceedings have existed on a European Union level since 1993 in the so-called Anti-Piracy Regulation⁵ and were extended in 1999 to cover a.o. the protection of patents.⁶ Parallel to that, there exist national laws and regulations of the member states to the European Union with regard to border detention proceedings, which however for the most part, are either subsidiary in their application to the European Regulation or restricted to certain rights of intellectual property not covered by the Anti-Piracy Regulation.⁷

These proceedings work in most instances smooth and fast. Patent holders who have filed applications for border detention proceedings comprise widely known companies such as American Tools, Bayer, Leatherman, LG, Lilly, Miele, Philips, Procter & Gamble, Volkswagen, and others. However, the vast majority of patent holders seem to be unaware of this possibility and do not make use of it to protect their rights—without good justification: Patent owners benefit significantly from blocking patent infringing goods from entry into the European Union. Place nos. 2 and 3 of the German customs service's "top ten" counted by the number of detained goods were held by patent owners over the last three years.

II. Overview of the EU Anti-Piracy Regulation

The European border detention proceedings based on the current Anti-Piracy Regulation (EC Regulation no. 1383/2003)⁸ contain three steps: application, detention, destruction or court proceedings.

Border detention proceedings are initiated by an application with one or more of the national customs departments. A list of customs departments competent to receive and process applications in the European Union is published on the Internet.⁹ The application may be filed by the patent owner

1. This article is based in part on the author's publication in GRUR 2007, 485 ff. with kind permission by Verlag C.H. Beck, Munich/Frankfurt a.M., Germany.

2. See statistics of the European Commission for 2006, published under: http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics/index_en.htm.

3. See above statistics of the European Commission.

4. See statistics of German Customs Service for 2007, under no. 9., according to which 59 % of all detained goods are transported by sea; published under: http://www.zoll.de/e0_downloads/f0_dont_show/zgr_jahresstatistik_2007.pdf.

5. Council Regulation (EC) no. 3295/94, OJ of EC no. L 341 of 30 Dec. 1994, p. 8.

6. Council Regulation (EC) no. 241/1999, OJ of EC no. L 27 of 2 Feb. 1999, p. 1.

7. E.g. with respect to the protection of utility models; cf. sec. 142a German Patent Act.

8. OJ of EC no. L 196 of 2 Aug. 2003, p. 7.

9. See http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/right_holders/index_en.htm.

or his licensee. Both are called the “right-holder” by the Regulation. The applicant has to demonstrate that he is the owner or licensee of the relevant patent, he has to identify the respective goods, and he has to inform about typical indications of patent infringement. Furthermore, he has to name a contact person. Once the application has been granted by the customs department (a decision has to be made within 30 days), the grant will be communicated to the customs offices of the respective European member states.

Where goods are suspected of infringing a patent, the customs office shall suspend its release (if a customs declaration has been filed) or detain the goods (in all other cases) and inform the customs department which processed the application. The customs department or the customs office informs the right-holder and the declarant or holder of the goods and gives them the opportunity to inspect the goods (art. 9 par. 3 Anti-Piracy Regulation). Furthermore, samples may be taken and sent to the right-holder for analysis. Within 10 working days upon receipt of the notification of suspension or detention, the right-holder has to initiate proceedings to determine whether a patent has in fact been infringed. In this respect the Anti-Piracy Regulation refers to the national law (art. 10 Anti-Piracy Regulation). This may be a patent infringement action or, if applicable, criminal proceedings for willful patent infringement. If these proceedings are not initiated within the above deadlines, the goods have to be released subject to completion of all customs formalities (art. 13 par. 1 Anti-Piracy Regulation). Once court proceedings are initiated, their further course is left to the national law of the respective member state. The national legislators have to ensure that goods found to be infringing a patent are destroyed or disposed of outside commercial channels and that persons concerned are deprived of economic gains from the transaction (art. 17 par. 1 Anti-Piracy Regulation).

III. Details of the Border Detention Proceedings in Patent Matters Based on the EU Anti-Piracy Regulation—The Dos and Don’ts

1. Application Phase

a. Suitable patents and indications for detection of patent infringement

Not all patents are suitable for border detention proceedings. The customs office has to be able to determine with sufficient clarity whether or not the “suspicion” of a patent infringement is given. A suspicion is given if a prevailing likelihood of infringe-

ment can be established. This determination does not require that the patent specification is readily comprehensible nor that the customs official himself could make this determination. Such a requirement would be excessive: Customs officials cannot be experts for customs and tax regulations, detection of illegal drugs and determination of patent infringements in one person. It suffices that the customs official can clearly identify which kind or sort of products are concerned. However, if already for the customs official (and not only an expert witness) complicated test procedures are required in order to determine whether or not a “suspicion” of patent infringement is given, the respective patent will not be suitable for border detention proceedings for practical reasons.

■ Christoph Cordes,
Esche Schuemann Commichau,
Attorney at Law,
Hamburg, Germany
E-mail: ccordes@esche.de

It is recommended to let customs authorities have as much information as possible for the determination of suspicion of patent infringement. This may include according to art. 5 Anti-Piracy Regulation a list of licensees as well a list of known infringers (“white” and “black lists”), information on routes of transportation (if known to the applicant), as well as typical features of original and counterfeited products. If the information mentioned in art. 5 par. 5 Anti-Piracy Regulation is not provided by the applicant, the customs department may decide not to process the application for action.

b. Restrictions of the application

The right holder cannot restrict his application for border detention proceedings to certain infringers. However, it is acceptable to restrict the application to a minimum number of detained goods in order to exclude trivial matters. This has the caveat, however, that it opens up the possibility that infringers might use this restriction to circumvent the likelihood of border detention should the restriction become known.

c. Costs

There are no fees for processing an application (art. 5 par. 7 Anti-Piracy Regulation). A security or bank guarantee which was to be provided by the right-holder under the former Anti-Piracy Regulation is not needed any more. It now suffices that the applicant provides a declaration that he accepts liability in case of an unjustified detention (art. 6 par. 1 Anti-Piracy Regulation).

d. Community-wide application or national application—which countries?

The Anti-Piracy Regulation provides in principle for two possibilities: The right-holder may lodge national applications with the national customs departments in one or more member states of the European Union or, if he holds a community wide intellectual property right, he may lodge a community wide application. Since there does not yet exist a community patent, one can only file national applications with the national customs departments. This is also the case with European Patents, i.e. also here a series of national applications with national customs departments is required.

The costs have to be weighed against the anticipated benefit on a country by country basis. One has to take into account that border detention proceedings are a first step only: Once goods are detained, court proceedings have to be initiated if the importer objects to their destruction. It is therefore sensible to concentrate border detention applications on the major production countries as well as the major selling markets, if the applicant wants to avoid the costs of legal proceedings in all European member states. Of course, this also gives room for circumvention and experience shows that a patchwork of application leads to curious transport routes by infringers.

Germany will often be one of the countries in which it is recommended that border detention applications be made: Germany is not only the largest domestic market within the European Union, but also the German patent courts have a well founded reputation with regard to speedy and cost efficient patent infringement proceedings. A judgment in the first instance can be obtained, if no expert witness has to be appointed by the court, within some nine to twelve months after lodging of the complaint. Also in the Netherlands, intellectual property right protection is very efficient and, via the port of Rotterdam, significant imports from non-EU countries enter the European market. The French law provides for the so called “*saisie-contrefaçon*,” a preliminary order for sequestration and inspection, a very fast and effective instrument. However, conducting a full patent infringement trial is somewhat more costly and takes more time than in Germany or the Netherlands. Italy has known deficiencies with regard to the enforcement of patents based on civil law proceedings which in part are already compensated by the installation of specialized courts in intellectual property matters. Moreover, the Italian public prosecution authorities often initiate, on application, criminal proceedings in intellectual property matters. Great Britain provides

a very effective court system, however the costs are comparatively high.

e. Further considerations

In theory the right-holder, after his application has been granted, may wait until customs detains patent infringing goods. The daily practice is different: Border detention is a fast procedure which may require significant resources and personnel. The pressure on customs service officials during certain periods, for example during Christmas, is high. It is important that the contact person is available to the customs service at all times. Furthermore, the right-holder should assure the cooperation of a person for technical issues so that patent infringement can be determined within a short period of time. Border detention proceedings require active support by the right holder.

2. Detention Phase

a. The criterion for customs action: “Suspicion” of patent infringement

The suspension or detention of goods in accordance with art. 9 par. 1 Anti-Piracy Regulation requires that goods be suspected of infringing an intellectual property right. It is sufficient that a preponderance of evidence speaks in favor of an infringement.¹⁰ The European legislator leaves it to the national courts to correct false decisions by customs authorities.

b. Detention situations—transit cases

The Anti-Piracy Regulation does not only come into play with regard to the importation of patent infringing goods into the European Union but rather refers to several “situations” in which goods may be detained. These situations include those where goods are entered for release into free circulation, export or re-export, checks on goods entering or leaving the European Union, where goods are placed under a suspensive procedure or are in the process of being re-exported, or placed in a free zone or free warehouse (art. 1 par. 1 Anti-Piracy Regulation). Patent infringing goods therefore may be detained by the customs authorities e.g. if they are brought into the free harbor of Hamburg as well as if they are found during transit through a member state of the European Union.

However, it is under dispute whether the transit of goods may constitute a patent infringement. In “*Polo Lauren vs. Dwidua*”¹¹ and “*Rolex*”¹² the Euro-

10. Benkard/Rogge/Grabinski, Patent Act (Patentgesetz), 10th Ed. 2006, sec. 142a mrg. no. 20.

11. ECJ, judgment of 6 Apr. 2000 in case no. C-383/1998.

12. ECJ, judgment of 7 Jan. 2004 in case no. C-60/2002.

pean Court of Justice has taken the position that the Anti-Piracy Regulation applies to transit and that the national law of the member states has to be interpreted in a way that infringing goods in transit still constitute an infringement of intellectual property rights in the country of transit (if the goods make unauthorized use of the respective right). However, in the more recent decision “*Montex vs. Diesel*”¹³ the European Court of Justice took a different position—at least in certain circumstances: The Court ruled that where goods are in transit through a European Union member state destined for another member state in which the intellectual property right is not protected, the right-holder has no claim for injunctive relief—unless there is an indication that the goods are to be put into circulation in the transit state. The Court found that the fact that there was always a risk that goods would be put into circulation in the transit state does not in itself suffice to deem goods in transit to be infringing goods. The ruling practice of the national courts differs from member state to member state. The German courts, for example, distinguish between transit in the narrow sense and in a broader sense. If the goods are subject to a transaction which takes place in foreign countries only (i.e. purchase, offer and acceptance as well as delivery of the goods takes place outside of Germany) a transit in the narrow sense is given. Transit in the narrow sense is not deemed to constitute patent infringement.¹⁴ The Dutch High Court is however of the opinion that regardless of whether goods are detained in transit or in any other situation mentioned in art. 1 par. 2 Anti-Piracy Regulation, the national patent law applies under a fiction that the goods are manufactured in the country where the goods are detained.¹⁵ For the foreseeable future, these different approaches of the national courts are likely to remain.

c. Licensed goods and parallel imports

If detained goods are products which are subject to licensing programs of the right-holder, the issue will often arise whether the goods are licensed or whether an exhaustion of the patent right has taken place. The Anti-Piracy Regulation does not grant protection against unauthorised parallel imports or violations of contractual obligations under a license

agreement (art. 3 par. 1 Anti-Piracy Regulation). It is thus the decisive issue whether or not a license has been granted—but not whether the provisions of the license agreement are complied with.

The burden of proof is again an issue of national patent law: Under German patent law, for example, the burden is on the importer to demonstrate the grant of a license for the products at issue.¹⁶ To provide proof can be difficult if the goods have not been supplied directly by the patentee or its licensee but rather by a third party. The importer has to prove the licensing of the products by a document which covers the full production and supply chain. The right holder may specify vis-à-vis the customs authorities which documents are suitable to prove the licensing status of the goods. It is advisable to also give customs authorities an indication as to how original documents can be distinguished from false or irrelevant documents.

d. Simplified procedure

The Anti-Piracy Regulation provides in art. 11 a simplified procedure for having patent infringing goods destroyed. The national legislators are empowered to implement a procedure according to which the consent of the declarant, holder or owner of the goods is deemed to be given unless they explicitly object within 10 working days upon receipt of notification of suspension or detention of goods. This is an improvement of the EC Regulation 1383/2003 compared to its predecessor, EC Regulation 3295/94, which provided for an express consent to be given by the above persons and specifically helps to streamline the procedure in case of a small number of goods.

e. Proceedings to determine a patent infringement

If no consent is given to the destruction of the goods, proceedings to assess patent infringement have to be initiated by the right-holder in accordance with art. 10 Anti-Piracy Regulation. These proceedings are first and foremost civil law actions, in this case a patent infringement action. Furthermore, it is possible to initiate criminal proceedings if the applicable national law so provides.

3. Release Against Security

In patent matters, a release of the detained goods against the placement of a security is possible. An application for release may be lodged by the declarant, holder or owner of the goods as well as by the importer or consignee. A condition is that the

13. ECJ, judgment of 9 Nov. 2006 in case no. C-281/2005.

14. German Federal Court of Justice, judgment of 21 Mar. 2007, in case no. I ZR 66/04; GRUR 2007, 875.

15. Dutch High Court, judgment of 19 March 2004, RvdW 2004, no. 51.

16. German Federal Court of Justice, judgment of 14 Dec. 1999 in case no. X ZR 61/98; GRUR 2000, 299, 301.

right-holder does not present a preliminary injunction from a competent court. Further, a security has to be placed with customs and all customs formalities need to be fulfilled.

4. Costs of Storage and Destruction

The Anti-Piracy Regulation provides that costs for storage and destruction of goods infringing an intellectual property right may not be imposed on customs administration or exchequer (art. 15 and 17 par. 1 a Anti-Piracy Regulation). The legislative intent of these provisions is to keep the member states free and harmless of costs arising out of border detentions. They do not affect the relationship of right-holder and infringer, which is subject to national law. Under German patent law, the patent owner has a claim for reimbursement of destruction costs against the infringer arising out of sec. 140 a German Patent Act. The same applies to storage costs which are incurred until destruction.

5. Liability in Case of Unjustified Detention

Art. 6 par. 1 Anti-Piracy Regulation provides that the right holder has to give an undertaking by which he assumes liability for losses suffered in the event

that border detention proceedings are discontinued by the right holder or it is finally determined that there is no intellectual property infringement. The wording of the declaration can be seen in an annex to the Implementation Regulation to the Anti-Piracy Regulation.¹⁷

IV. Conclusion and Outlook

Border detention proceedings have proved to be an effective instrument in the fight against counterfeiting and product piracy. The revised Anti-Piracy Regulation which came into force on 1 July 2004 has brought significant improvements for right-holders: It is sufficient that the “suspicion” of a patent infringement is given to stop goods from entry into the European Union. Art. 11 Anti-Piracy Regulation introduced a fictitious consent to the destruction if the importer does not object within a short period of time. This streamlines the resolution of trivial cases; especially with regard to purchases over the Internet. Based on the positive experiences in the past, it is foreseeable that border detention proceedings in patent matters will further gain importance in intellectual property protection strategies. ■

17. Council Regulation (EC) no. 1891/2004, OJ of EC no. L 328 of 30 Oct. 2004, p. 16.