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## What is the Current Status of the Proposal for a New Regulation on Customs Action?

Thorsten Bausch (Hoffmann Eitle) · Thursday, September 22nd, 2011

On 24 May 2011, the European Commission published the “[Proposal for a Regulation concerning customs enforcement of intellectual property rights](#)” (SEC(2011)597 final) to replace the present Regulation EC/1383/2003. Along with the proposal, the Commission also published a detailed “[Impact Assessment](#)” (SEC(2011)597 final) which presents the results of the public consultation on the present Regulation.

But what is the current status of the proposal and when will it become law? Presently, the proposal is under discussion in a Council working group in which representatives of all Member States are discussing the Commission’s Proposal article by article and will then draft amendments. The Proposal seems to have quite a number of new provisions which cannot be accepted by all Member States. In particular, the following articles might need some more clarification.

(1) The draft provides for a new right to be heard for persons involved in customs proceedings after customs have found goods suspected of infringing an IP right (Article 16, No.3). This should help the declarant or holder of the goods with regard to possible unfounded customs actions, and should also avoid delays in the transit of [generic] medicines.

Under the present law, in unfounded cases, the persons involved must wait after having objected until the right-holder asks customs to release the goods within the time limits of the Regulation (i.e. 10 working days extendable to a maximum of 20 working days). During this period of time, the alleged infringer has no legal remedies. This can cause significant harm when the customs action is carried out at trade fairs and in cases with large and/or valuable consignments.

However, with regard to the newly planned right to be heard, it must be considered that the subject at issue is IP rights, which are not the core competency of customs authorities. If customs suspect infringement and the declarant or holder states that its goods are non-infringing, how should customs proceed? Should customs assess the legal arguments of the statement and release the goods or should they forward this statement to the right-holder? Should customs employ IP right specialists? What time limits should apply? However, if the right-holder must be heard before releasing the goods, would it not make more sense to stick to the present proceedings with tight time limits? It could be considered with regard to goods or cases of a certain value and/or protected by certain IP rights whether the parties involved should receive a right to obtain a provisional decision by a court on the IP right infringement. It could also be considered whether the time limits for the right-holder to respond should be limited to less than 10 working days with respect to large

and/or valuable consignments or in trade fair cases since trade fairs often only last for a few days.

(2) The new proposal will make “simplified proceedings” to destroy goods without a prior court decision compulsory, however only with regard to counterfeit (trademark rights/geographical indications) and pirated goods (copyrights/design rights) (Article 23). With regard to goods suspected of infringing patents, supplementary protection rights or plant variety rights and the newly covered utility model and topography rights (see also below), the right holder will have to enter into a written agreement with the holder of the goods that the goods are to be abandoned for destruction (Article 20, No. 2 (a)). If no agreement can be reached, he must, and this differs from the present implementing law in many Member States, initiate proceedings to determine whether an intellectual property right has been infringed (Article 20).

In practice, however, cases are not uncommon in which the application covers goods protected by a trademark or a design right and a patent right. It would be unsatisfying for right-holders if court proceedings must be initiated as a rule for such goods. The Proposal must be made more clear as regards how customs are to handle cases in which rights and goods are covered by several IP rights subject to different proceedings.

It should be further discussed whether “simplified proceedings” should remain applicable to “other IP rights”, at least as an option for the Member States, along with measures to improve the reachability of persons involved in customs proceedings (e.g. with a risk of legal disadvantages). In this respect, it should be considered that with regard to foreign parties, if no agreement on the destruction can be reached and the right-holder has to initiate court proceedings, it will oftentimes be too costly or legally impossible to recognize and enforce the judgment and the decision on the costs in the respective foreign jurisdiction.

(3) The Proposal provides for a new specific procedure for the destruction of goods in small consignments (Article 24). The conditions are as follows: If goods are suspected of being counterfeit or pirated goods and if they are covered by an application and transported in small consignments, customs may destroy goods at their expense (Article 24 No. 7) after the declarant or holder of the goods has had the opportunity to make a statement within 20 working days. Failure to respond will be considered as consent to the destruction. The right-holder need not be involved. If the declarant or holder of the goods objects to the destruction of the goods, the right-holder will be informed to take further steps. However, it seems to be difficult for customs to enforce an IP right-holder’s rights without being formally authorized by the right-holder. Right-holders will probably not authorize customs without knowledge of the case but nevertheless being liable for the destruction (private use defense of importer!). It is not to assume that the Member States will accept that customs authorities have to bear the costs for the destruction. However, it is reasonable to establish new rules to simplify the handling of small consignments.

(4) Further, the question arises as to whether the new Regulation will allow customs to take action on goods in transit. The answer is basically yes since goods in transit are covered by the Regulation according to Article 1 of the Proposal. However, ECJ decisions denying trademark right infringement in connection with goods in transit (“Montex”, “Class International”) have so far not been considered. In the two pending ECJ proceedings “Philips” and “Nokia” (joined case C-446/09), the European Court of Justice will have to decide on the question of whether customs may “suspect goods in transit of infringing an IP right” and detain goods despite the ECJ decisions “Montex” and “Class International”. The Advocate General of the case C-446/09 is of the opinion that “suspicion” of IP right infringement may not be interpreted too strictly. There is a risk that

transit proceedings will be abused to place IP-right-infringing goods on the EU market. He therefore suggests that customs may take action provided that there are sufficient grounds for suspecting that the goods are counterfeit and in particular that they are to be placed on the market in the European Union, either in conformity with a customs procedure or by means of an illicit diversion, even though there is no evidence of their destination. He stated: “Circumstances such as the excessive duration of the transit, the kind and number of means of transport used, the greater or lesser difficulty of identifying the consignor of the goods or the lack of information on their physical destination or consignee could lend substance to a well-founded suspicion that goods appearing in themselves to be ‘counterfeit’ or ‘pirated’ are to be placed on the market of the European Union” (Opinion, note 111, 112).

The decision of the European Court of Justice will hopefully help customs to understand the criteria according to which they may take action on goods in transit proceedings. Further, the Council working group considering the new Regulation could take the decision into consideration.

With regard to generic medicines in transit, Preamble 18 of the Proposal provides a special rule on custom’s handling of these cases: “when assessing a risk of IP right infringement, customs shall take account of any substantial likelihood of diversion of these goods onto the market of the Union”. This is, so far, along with the new right to be heard and the exclusion of patent rights on “simplified proceedings”, the response of the EU Commission to India’s and Brazil’s complaints regarding customs action against generic medicines based on the Regulation.

(5) The Regulation should not cover semiconductors protected by topography rights (Article 2 (1) j). Court proceedings concerning the infringement of topography rights are rare. There does not seem to be a single case in Germany. It is not economically reasonable to copy semiconductor topography. However, cases are imaginable in which a person steals a file with the data of the topography and a third company manufactures identical semiconductors based on the stolen file. However, the infringement of a topography right can only be disclosed by a costly and difficult procedure of splitting the layers of a semiconductor. It seems questionable whether the short time limits of border seizure proceedings will be sufficient for this. If the right-holder makes use of the maximum 20 working days without finding an infringement (with the result of the release of the goods), companies selling semiconductors may incur damages for which the right-holder will basically not be liable. The application should therefore only be allowed on the condition that the right-holder has already examined the semiconductors of a specific company which form the subject matter of the application for customs action, and has found evidence that these semiconductors make (identical) use of the protected topography.

(6) Finally, it should be reconsidered whether it is necessary to re-number and re-structure the Regulation to achieve the goals. Central provisions such as Article 5 on the application and Article 13 on Simplified Proceedings should remain in place.

Anja Petersen-Padberg

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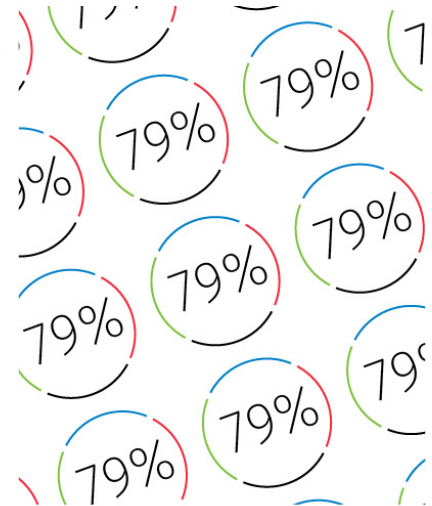
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