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*Session 8: Trade/Enforcement Law*  
*B. Enforcement Issues, including ACTA/301*  
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**Nokia and in-transit border controls**  
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The issue: should Customs authorities be entitled to detain goods passing through their territory from one third country (say, China or India) to another (say, Columbia or Brazil) on the basis that those goods would infringe IP rights in their own territory? Should the owner of the IP rights be able to take action for infringement?

The sub-issues: does it matter if the goods are:

- (a) genuine products (parallel imports);
- (b) counterfeit electrical goods; or
- (c) generic pharmaceuticals?

The history

Trade in counterfeit goods is not a new issue. In 1978, in GATT discussions the United States proposed an agreement on commercial counterfeiting, to cover trade marks and trade names, which ultimately led to TRIPS being added to the Uruguay Round in 1986 and adopted in 1994. Article 51 of TRIPS specifically requires border controls against the importation of counterfeit trademark or pirated copyright goods. Trade in counterfeit goods is also the nominal basis for the ongoing ACTA discussions.

While multilateral discussions continued, the EU introduced border control measures to allow Customs to take action to deal with trade in counterfeit goods. The first EU Regulation only covered the importation of counterfeit goods into the EU,<sup>1</sup> but over the years this has gradually been extended to cover customs procedures other than importation (including external transit) and forms of intellectual property other than trade marks (including patents).<sup>2</sup>

The Current Regulation: Regulation 1383/2003<sup>3</sup>

Customs procedures: under Article 1(1), Customs can seize goods in a wide range of Customs procedures, including those “placed under a suspensive procedure within the meaning of Article 84(1)(a) of [Regulation 2913/92]”. This covers goods in transit between third countries under the “external transit” procedure (which as a legal fiction do not enter the EU territory).

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<sup>1</sup> Regulation 3842/86 [1986] OJ L357/1.

<sup>2</sup> The procedure was extended to cover goods in transit by Regulation 3295/94 [1994] OJ L341/8, while coverage of patents was introduced by Regulation 241/1999 [1999] OJ L27/1.

<sup>3</sup> Regulation 1383/2003 [2003] OJ L196/7.

Intellectual property rights: under Article 2(1), the IP rights covered are registered trade marks, copyright, registered and unregistered design rights, patents, supplementary protection certificates, plant variety rights, designations of origin, geographical indications and geographical designations.

Necessity for infringement: under Article 2(1):

for copyright/design rights, “where the making of those copies would constitute an infringement of that right [in the EU or in the Member State in which the application for customs action is made]”

for trade marks, “which thereby infringes the trademark-holder’s rights [in the EU or in the Member State in which the application for customs action is made]”;

for the other rights “which, in the Member State in which the application for customs action is made, infringe”

Parallel trade: under Article 3, genuine parallel traded goods are excluded from the scope of the Regulation.<sup>4</sup> This led to the payment of damages by various pharmaceutical companies, including Eli Lilly, when they wrongly obtained interim injunctions against 8pm Chemists which was obtaining genuine pharmaceuticals from Turkey (outside the EU), packaging them in the UK (inside the EU) and sending them to patients in the United States (outside the EU).<sup>5</sup>

Action by Customs: under Articles 10-14, Customs authorities do not determine infringement. Where they suspect infringement, they detain the goods and inform the owner of the goods and the IP right holder. The right-holder then has 10 working days (extendable to 20) to bring action for infringement or to convince the owner of the goods to consent to their destruction

The Nokia case (and the Philips case)

In July 2008, UK Customs (HMRC) stopped and inspected at Heathrow Airport a consignment of goods being shipped from Hong Kong to Colombia. It comprised approximately four hundred mobile telephone handsets, batteries, manuals, boxes and hand free kits, each of which bore NOKIA trade marks. There was no dispute that the goods were fake.

Nokia asked HMRC to take action against the goods but HMRC refused on the basis that there was no evidence that the goods would be diverted onto the EU market. Accordingly, there was no importation of the goods or other infringing use of the trade mark in the EU and, said HMRC, this meant they had no power under Regulation 1383/2003. This followed an HMRC policy adopted in January 2008, in the aftermath of the ECJ’s decisions that goods in transit were not imported or otherwise infringing trade mark rights.<sup>6</sup>

Nokia sought a judicial review of HMRC’s refusal to take action. Kitchin J in the High Court agreed with HMRC’s interpretation,<sup>7</sup> but on appeal the Court of Appeal decided that the question should be referred to the ECJ as Case C-495/09. The case is now pending there, along with a similar reference from Belgium (Case C-446/09 *Philips*) which asks whether the

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<sup>4</sup> For more detailed discussion, see Christopher Stothers, “Parallel Trade in Europe” (Hart, 2007), pp368-372.

<sup>5</sup> The judgment of the Court of Appeal discharging the injunction is *Eli Lilly v 8pm Chemists* [2008] EWCA Civ 24, while the High Court’s judgment on damages is *Lilly Icos v 8pm Chemists* [2009] EWHC 905 (Ch).

<sup>6</sup> Case C-405/03 *Class International* [2005] ECR I-8735 and Case C-281/05 *Montex* [2006] ECR I-10881.

<sup>7</sup> *Nokia v HMRC* [2009] EWHC 1903 (Ch).

national court must apply a fiction that the good was manufactured in its territory when determining infringement.

The “manufacturing fiction” has notably been applied by the Dutch courts (Case 311378 *Sisvel v Sosecal*, 18 July 2008), although more recently those courts have stayed proceedings pending the outcome of the references to the ECJ (*Cybergun*, 20 January 2010).

#### Detention of generic pharmaceuticals

At the same time, the Customs authorities in the Netherlands have detained a number of batches of generic pharmaceuticals passing in transit through their territory from India to various countries in South America. This action has led to heated diplomatic debate, with India and Brazil threatening to bring the EU before a WTO Panel for breach of its GATT commitments. The EU’s approach has generally been conciliatory and it has not sought to justify such detention as a matter of legitimate policy choice.<sup>8</sup> Notably, the ECJ’s own case law is clear that detention of goods in transit within the EU on the basis of IP infringement would breach Article 34 of the TFEU (on the free movement of goods) as extending beyond the specific subject matter of IP rights.

#### Consultation paper

Against this background, the European Commission’s DG for Taxation and Customs Union has issued a Consultation paper on its review of Regulation 1383/2003, with responses due by 21 May 2010.<sup>9</sup> This consultation is likely to lead to a proposal to replace the Regulation. It specifically mentions the issues raised by India and Brazil and asks whether a different approach should be taken for parallel trade.

#### Predictions for the *Nokia* and *Philips* cases

Kitchin J said in *Nokia* that “I recognise that this result is not satisfactory. I can only hope it provokes a review of the adequacy of the measures available to combat the international trade in fake goods by preventing their transshipment through Member States.”

Although the matter will not be decided by the ECJ for some time yet, it seems likely that in due course a purposive interpretation will be adopted which will solve this problem. It is relatively clear that the extension of the Regulation was supposed to cover goods in transit, that it does so for copyright by applying a “manufacturing fiction”, that there was no intention that “thereby infringes the trademark-holder’s rights” (which dates back to the original Regulation in 1986) was intended to be interpreted differently and that there was no intention to require evidence of diversion into the EU market. Accordingly, it seems likely that the ECJ will adopt the “manufacturing fiction” thus preventing transshipment.

Although the issue of generic pharmaceuticals will doubtless be raised before the ECJ, this is not relevant to the facts of the cases before it. Moreover, it is difficult to see how a different approach could be applied to such goods as opposed to counterfeit electrical goods under the current Regulation. The distinction will need to be drawn in a new Regulation.

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<sup>8</sup> For further discussion, see Stephanie McAviney, “Ever broader border controls” [2009] *JIPPL* 455.

<sup>9</sup> Available at [http://ec.europa.eu/taxation\\_customs/common/consultations/customs/ipr\\_2010\\_03\\_en.htm](http://ec.europa.eu/taxation_customs/common/consultations/customs/ipr_2010_03_en.htm).

## The New Regulation

Accordingly, the Consultation paper is of critical importance to the future direction of Customs controls in the EU. If IP owners want to obtain the strongest possible support from Customs they will need to explain to the Commission (a) why it should adopt a strong policy and (b) how it can comply with its GATT obligations without simply retreating to the bare minimum of protection required by TRIPS (or any extension required by ACTA).

In order to get the discussion underway (at least at Fordham), I'd suggest the following points for consideration:

1. There are at least two categories of goods which must be treated differently:
  - a. As recognised by Kitchin J, counterfeit goods in transit should be covered by the Regulation – there can be no GATT obligation to facilitate the trade in counterfeit goods and the EU can and should take action to stop them transiting through EU transportation hubs; and
  - b. However, it is not going to be politically acceptable to continue to detain generic pharmaceutical goods in transit, particularly when this is likely to lead the EU into a WTO dispute (which it would stand a serious risk of losing).
2. The key distinction is not solely in the emotive nature of pharmaceuticals, or in the intellectual property rights in question, but rather in the fact that generic pharmaceuticals may not infringe rights in their source or destination country (a matter for a separate debate) but only in the EU (where they are neither manufactured nor sold).
3. Accordingly, the “manufacturing fiction” approach alone does not provide an acceptable solution.
4. Three potential solutions would be:
  - a. To combine the “manufacturing fiction” with a defence (to be shown by the owner of the goods) that the goods are not infringing in source or destination country. This would cover all IP rights, but it is likely to be unattractive and complicated to implement.
  - b. To exclude patent rights from the scope of the Regulation altogether. This is not to say that patents are too “complicated” for Customs – in reality, it is for the patentee to tell Customs how to recognise goods which the patentee says infringe its patent, with infringement a matter for the national court. However, it is a matter for serious debate whether the inclusion of patents within the scope of the Regulation actually improves proper enforcement of patent rights beyond existing litigation procedures or rather results in arbitrary and damaging detentions which are used primarily to obtain a strategic advantage in subsequent litigation which could have been commenced directly.
  - c. To exclude patent rights from the scope of the Regulation where the goods are merely in transit, either by limiting the Customs procedures which are covered in the case of patents or by requiring evidence that the goods are likely to end up on the EU market.
5. As parallel importation into the EU without consent will now infringe most IP rights, there is little justification for the complete exclusion of parallel imports from the scope of the Regulation. However, the application of the Regulation to genuine goods in transit would be difficult to justify and so this would probably require combination with one of the three solutions above, adjusted to cover parallel imports.