

# **The Combat against Counterfeiting and Piracy in the European Union**

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## **Introduction**

In recent years the combat against counterfeiting and piracy has been a hot topic in the European Union. Counterfeit and piracy are defined in Council Regulation 1383/2003/EC of 22 July 2003.<sup>2</sup>

- Counterfeit is defined as goods, including packaging, bearing without authorisation a trademark identical to the trademark validly registered in respect of the same type of goods or which cannot be distinguished in its essential aspects from such a trademark.<sup>3</sup>
- Pirated goods are copies made without the consent of the holder of an intellectual property right.<sup>4</sup>

These definitions immediately reveal a conceptual weakness: trade in and production of a product may be considered as counterfeiting in one country, whereas it is not illegal in another country, depending on the national legislation and the state of protection obtained by the proprietor

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2 Council Regulation 1383/2003/EC of 22 July 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 (OJ 2003 L 196 dd 2 August).

3 1383/2003/EC Article 2(a).

4 *Ibid* Article 2(b).

of the right concerned. The legal distinction between counterfeiting and legitimate use of intellectual property rights (IPR) follows from differences in national law (or differences in enforcing national law) and from choices made by holders of IPR who may decide to waive protection or enforcement measures in some countries.

Notwithstanding this 'relativity' and the fact that counterfeiting is unlawful only where it violates the applicable law and vested rights, it is considered a serious threat to the economies especially of those countries with a developed system of protection of IPR, regardless of whether counterfeit production took place without violating the law in the country of origin.

The European Commission (EC) recognises the great importance of the problem. Apart from the economic damage that is caused by counterfeiting and piracy, there have also been quite a few examples of counterfeiting leading to serious safety and environmental issues. The number of dangerous counterfeit goods such as medicines,<sup>5</sup> car parts, unsafe toys and foodstuffs has risen tremendously.<sup>6</sup> Every year, the EC provides an overview of the results achieved by each Member State in terms of seizures of counterfeit goods at the borders.<sup>7</sup> The statistics confirm that counterfeiting is a growing and increasingly dangerous phenomenon. In 2006, EU customs seized 250 million counterfeit and pirated goods (compared with 75 million in 2005 and 100 million in 2004) and handled more anti-counterfeiting cases than ever before.<sup>8</sup> This is considered to be the tip of the iceberg.

Because of the far-reaching consequences of counterfeiting and piracy, these subjects are given high priority on the European agenda. We will first give an overview of the most important measures that have been taken to combat counterfeiting and piracy on the European level. Then we will discuss the application of one of these measures, the Anti-Piracy Regulation, by the European courts. Before coming to a conclusion, we will focus on a few bottlenecks that impede the effectiveness of the battle against counterfeiting and piracy and on the potential downside of (too) vigorous protection in favour of holders of IPR.

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5 The European Parliament has requested specific action in the field of counterfeiting of medicines (see Resolution of the European Parliament on the counterfeit of medicines dd 7 September 2006, P6\_TA-PROV(2006) 0351).

6 See Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on a customs response to latest trends in counterfeiting and piracy dd 11 November 2005, COM (2005) 479 final, p3.

7 MEMO/04/255 Brussels, 10 November 2004 EU strategy to enforce Intellectual Property Rights in third countries – facts and figures.

8 A total of more than 37,000 cases were dealt with in 2006, up 40 per cent from 2005.

## European measures against counterfeiting and piracy<sup>9</sup>

At the European level much has been done in recent years to combat counterfeiting and piracy. In 1998, the EC published a Green Paper on the fight against counterfeiting and piracy in the Single Market, in order to launch a debate on the subject with all interested parties.<sup>10</sup> The consultation confirmed that the disparities between the national systems of IPR had a harmful effect on the proper functioning of the Internal Market. The consultation was followed by a Communication to the Green Paper proposing an action plan to improve and strengthen the fight against counterfeiting and piracy. A few measures were considered to be urgent:

- a. a directive to boost the means of enforcing IPR and to define a general framework for exchanging information;
- b. the use of existing programmes to devise training actions for officials in enforcement agencies and public information and awareness-raising measures; and
- c. the identification of a contact point at EC level to provide a link between the various departments with respect to work in this field, and to facilitate transparency.<sup>11</sup>

### *The Anti-Piracy Regulation*

In the customs area, the most relevant instruments are Council Regulation 1383/2003/EC mentioned above concerning customs action against goods suspected of infringing IPR and the measures to be taken against goods found to have infringed such rights (the so-called 'Anti-Piracy Regulation') and its implementing Regulation, Commission Regulation 1891/2004/EC of 21 October 2004.<sup>12</sup> The Anti-Piracy Regulation – that applies from 1 July 2004 and repeals Anti-Piracy Regulation 3295/94/EC – allows customs to intercept goods suspected of being counterfeit or pirated.

The aim of the new Anti-Piracy Regulation is to simplify the administrative measures necessary to implement it for holders of IPR whose rights have

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9 These instruments and mechanisms are also summarised on the website of the European Union (<http://europa.eu/scadplus/leg/en/lvb/l11016.htm>).

10 COM (1998) 569 final.

11 COM (2000) 789 final.

12 Commission Regulation (EC) 1891/2004 of 21 October 2004 laying down provisions for the implementation of Council Regulation 1383/2003/EC 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 (OJ 2004 L 328 dd 30 October). Regulation 1172/2007 (OJ 2007 L 261 p12) amends Regulation 1891/2004 implementing the 'basic' Regulation 1383/2003/EC on border measures, in that it provides for a new Community application for customs action form that takes into account the accession of Bulgaria and Romania to the European Union.

been infringed and to give customs administrations a legal arsenal enabling them, in cooperation with right holders, to better prevent and control IPR infringements. Where goods are suspected of infringing IPR, the right holder may lodge a written application with the relevant customs authorities (the application for action must include an accurate and detailed technical description of the goods in question, any information concerning the nature of the fraud and the name and address of the contact person appointed by the right holder). In accordance with national provisions, and with the right holder's agreement, the Member States may now set up a simplified procedure to enable the customs authorities to have the goods destroyed. If the infringement of an IPR is not established within a set deadline, the detention order is lifted and the goods are released once the necessary customs formalities have been discharged.

Goods found to infringe an IPR may not be brought into the customs territory of the Community, withdrawn from the customs territory of the Community, released for free circulation, exported, re-exported or placed under a suspensive arrangement, in a free zone or free warehouse. If the customs authorities have sufficient reason to suspect that goods are violating an IPR, they may suspend the release of goods or retain goods 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 Member State concerned, the customs authorities may ask the right holder for information to help them in their investigation. The competent customs office sets a maximum period of a year during which action must take place. However, this system is not designed to inform right holders and to enable them to take action against parallel import of genuine products, even if such import violates national or community IPR (exhaustion principle).<sup>13</sup>

The set of rules laid down in the Anti-Piracy Regulation provide a strong tool for EU customs and right holders to act against counterfeiting and piracy. The legislation in this area is now considered to be among the strongest in the world, reflected by the fact that Member States' customs administrations seize considerably more counterfeit goods than is the case elsewhere.<sup>14</sup>

### *The Enforcement Directive*

#### BACKGROUND

Among the initiatives proposed in the action plan was the preparation of a directive aimed at harmonising the national provisions on the means of

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13 1383/2003/EC, Article 3.

14 *Supra* n6 at p8.

enforcing IPR. This so-called 'Enforcement Directive'<sup>15</sup> was enacted on 29 April 2004. It had to be transposed into laws of the Member States by 29 April 2006 at the latest. In contrast to previous European legal norms in the field of IP law, harmonisation of the Enforcement Directive is not limited to a specific branch of IP law such as copyright or patent law. The Enforcement Directive applies to all IPR and to any infringement of IPR<sup>16</sup> as provided for by Community legislation (eg, Community trademarks and Community designs) and/or by the national laws of the Member States (eg, patent law). Although the area of application of the Enforcement Directive is not limited to counterfeiting and piracy, some measures will probably only be allowed if there is a (suspicion of) counterfeiting or piracy, because the measures taken have to conform to the principles of proportionality and subsidiarity. The Directive does not affect Community provisions governing the substantive law on IP, Member States' international obligations and notably the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Agreement)<sup>17</sup> or any national provisions in Member States relating to criminal procedures or penalties in respect of infringement of IPR.<sup>18</sup> The principal objective of the Enforcement Directive is to ensure an equivalent level of protection for IP in the Member States.<sup>19</sup> The Directive harmonises the rules on standing, evidence, interlocutory measures, seizure and injunctions, damages and costs, and judicial publication. In November 2004, the EC also adopted an IPR Enforcement Strategy towards third countries.<sup>20</sup>

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15 Directive 2004/48/EC of the Parliament and of the Council of 29 April 2004 on measures and procedures to ensure enforcement of intellectual property rights (OJ 2004 L 157, 45 dd 30 April).

16 Statement 2005/295/EC (OJ 2005 L 94 dd 13 April) by the Commission lists the IPR which are covered by the scope of the Directive on the enforcement of IPR. These include copyright, rights related to copyright, *sui generis* right of a database maker, rights of the creator of the topographies of a semiconductor product, trademark rights, design rights, patent rights, including rights derived from supplementary protection certificates, geographical indications, utility model rights, plant variety rights, trade names, insofar as these are protected as exclusive property rights in the national law concerned.

17 As regards content, the Directive aims to transpose the provisions of the TRIPs Agreement on the enforcement of IPR (Articles 41–50 and 61) into European law. All Member States, as well as the Community itself, are bound by the TRIPs Agreement concluded in the framework of the WTO and approved by Council Decision 94/800/EC (OJ 1994 L 336 of 23 December, p1).

18 Enforcement Directive Article 2(3).

19 Other objectives are promoting innovation and business competitiveness; safeguarding employment in Europe; preventing tax losses and destabilisation of the markets; ensuring consumer protection; and ensuring the maintenance of public order.

20 OJ 2005 C 129 dd 26 May, p3.

*Substance*

The Enforcement Directive obliges Member States to set up the measures and procedures needed to ensure the enforcement of IPR, and to take appropriate action against those responsible for counterfeiting and piracy. Those measures and procedures should be sufficiently dissuasive, but avoid creating barriers to legitimate trade and offer safeguards against their abuse.<sup>21</sup> A request to apply IP protection measures may be submitted by the holders of IPR, their representatives and all other persons authorised to use those rights in accordance with the applicable law. Wherever they represent holders of IPR, rights management or professional defence bodies may also ask to apply these measures.<sup>22</sup> A few of the most important provisions of the Enforcement Directive are discussed below.

**Evidence:** the Enforcement Directive empowers holders of IPR (or other interested parties such as licensees) to apply for evidence held by the other party regarding an infringement to be presented, but only if the information is not confidential and if the applicant can present 'reasonably available evidence sufficient to support its claim'.<sup>23</sup>

Where there is a demonstrable risk of an IPR being infringed, even before the commencement of proceedings on the merits of the case, the competent judicial authorities may order prompt provisional measures to preserve evidence.<sup>24</sup> Those measures can also be taken *ex parte*. One of these provisional measures is the physical seizure not only of the infringing goods themselves but also of materials used in the production and distribution.<sup>25</sup>

**Mareva injunction:** in certain cases, the judicial authorities may authorise the precautionary seizure of 'movable and immovable property' of the alleged infringer (including freezing bank accounts and other assets) in order to prevent abuses of process.<sup>26</sup> This so-called Mareva injunction, which has its origin in UK law, will only be granted if the applicant demonstrates that it is likely that recovery of damages will be endangered.

**Recall and destruction:** at the request of the applicant, the judicial authorities may order the recall of the goods which have been found to infringe an IPR. The goods concerned together with the materials and implements used for their creation may also be removed from the channels of commerce, and the judicial authorities may order the destruction of

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21 Enforcement Directive Article 3.

22 *Ibid* Article 4.

23 *Ibid* Article 6.

24 *Ibid* Article 7.

25 This measure resembles the so-called Anton Piller order in UK law.

26 Enforcement Directive Article 9(2).

counterfeit or pirated goods.<sup>27</sup>

**Damages and legal costs:** concerning damages, the European Parliament and the Council have, contrary to the EC's original proposal,<sup>28</sup> refrained from implementing any kind of punitive damages such as exist under US law. However, on application of the injured party, the competent judicial authorities should, in principle, order an infringer to pay the right holder damages in reparation of the total loss incurred (including the total court costs, lawyers' fees and any other expenses incurred by the successful party) to the extent that those costs are reasonable and proportional.<sup>29</sup> For some countries, inter alia, the Netherlands, this means that recovery of higher legal costs is possible in IP cases than in other cases (where usually a fixed compensation is awarded).

## IMPLEMENTATION

The provisions of the Enforcement Directive were to be implemented in all Member States of the European Union by 29 April 2006. However, a number of Member States have not completed the necessary steps.<sup>30</sup> The EC has brought an action before the European Court of Justice (ECJ) against Luxembourg, France, Sweden and Germany for their failure to implement the Enforcement Directive within the set time limit.<sup>31</sup>

### *Recent developments*

In a Communication of 11 October 2005 from the EC to the Council, the European Parliament and the European Economic and Social Committee on customs responded to the latest trends in counterfeiting and piracy and presented a range of initiatives aimed at cracking down on counterfeiting and piracy.<sup>32</sup> On 13 March 2006, the Council adopted a Resolution on a customs

27 The competent judicial authorities can also order pecuniary compensation to be paid to the injured party instead of applying the removal or destruction measures, if that person acted unintentionally and if execution of these measures would cause him/her disproportionate harm.

28 Article 17(1) of the original proposal for an Enforcement Directive (COM (2003) 46 final dd 30 January).

29 Enforcement Directive Article 13. As an alternative, judicial authorities can fix damages as a lump sum on the basis of the elements such as the amount of royalties or fees which would have been due if the infringer had requested authorisation to license or use the intellectual property in question.

30 In October 2006, the Enforcement Directive still only had been implemented by 12 of (then) 25 Member States (see [www.ipeg.com/\\_UPLOAD%20BLOG/Summary%20Implementation%20Enforcement%20Directive%20EU\\_IEPG\\_security.pdf](http://www.ipeg.com/_UPLOAD%20BLOG/Summary%20Implementation%20Enforcement%20Directive%20EU_IEPG_security.pdf)).

31 See cases C-329/07 (France), C-328/07 (Luxembourg), C-341/07 (Sweden) and C-395/07 (Germany).

32 COM (2005) 479 fin.

response to latest trends in counterfeiting and piracy.<sup>33</sup> The modernised customs code is part of the EC's global reform aimed at creating a new electronic customs environment<sup>34</sup> that will provide for more convergence between the 27 national customs administrations.

Another recent development is the EC proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property and strengthening criminal measures to combat counterfeiting.<sup>35</sup> These measures are aimed at approximating the Member States' criminal legislation on combating infringements of IPR. The EC proposes that a minimum level of criminal penalties be laid down (at least four years' imprisonment where the offence is committed under the aegis of a criminal organisation or where the offence carries a serious risk to personal health or safety and a fine of at least €100,000, or €300,000 where there is a link to a criminal organisation or a risk to personal health or safety). A report on the proposed Directive on criminal measures has now been adopted by the European Parliament and has been forwarded to the Council. The EC's initial proposal of the Enforcement Directive already contained provisions on criminal sanctions against fraudsters, but those provisions were removed due to their political sensitivity. The Enforcement Directive now merely stipulates that Member States are free to apply other sanctions, which go further than the provisions set out, to prosecute offenders.<sup>36</sup>

Furthermore, the European Union, the United States, Canada, Japan, Korea, Mexico and New Zealand have announced their intention to negotiate a new Anti-Counterfeiting Trade Agreement (ACTA). The announced goal of

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33 Council Resolution 2006/C 67/01 of 13 March 2006 on a customs response to latest trends in counterfeiting and piracy (OJ C 67 dd 18 March 2006).

34 IP/07/627

35 See COM (2005) 276 final, 'Proposal for a European Parliament and Council Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights' and 'Proposal for a Council Framework Decision to strengthen the criminal law framework to combat intellectual property offences'. This is in line with Article 61 TRIPs which obliges Members to '... provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale ...'.

36 See Enforcement Directive Article 16. The proposal raises questions on the competence of the Community in the field of the so-called First Pillar (the EC Treaty) to impose on Member States the obligation to provide for specific or minimum criminal sanctions. The Dutch Parliament has been very critical. The ECJ in its judgments of 13 September 2005 (Case C-176/03, Commission/Council, ECR (2005) p I-7879) and of 23 October 2007 (Case C-440/05, Commission/Council, not yet reported) recognises that in principle criminal (procedural) law does not belong to the competence of the Community, but that Community legislation can impose an obligation on Member States to provide for effective, proportionate and deterring sanctions to safeguard the interests of Community law. However, the nature and the level of criminal sanctions have to be decided by the Member States and not by the Community.



the ACTA is to provide a high-level international framework that strengthens the global enforcement of IPR and helps in the fight to protect consumers from the health and safety risks associated with many counterfeit products.<sup>37</sup>

## **The application of the Anti-Piracy Regulation by the ECJ**

Although most of ECJ case law relates to the application of the old Anti-Piracy Regulation, it is also relevant to the application of the new Anti-Piracy Regulation. We will briefly discuss two cases that shed light on the question whether action can be taken against the mere transit trade of non-Community goods. On the basis of that case law, it can be concluded that the Anti-Piracy Regulation provides customs authorities with farther-reaching possibilities to act against the transit trade of (potentially) pirated or counterfeit goods than the private holder of IPR.

### *Polo/Dwidua*<sup>38</sup>

The US company Polo/Lauren is the holder of several verbal and pictorial trademarks that are registered in Austria. Relying on the Community's Anti-Piracy Regulation, the Austrian customs authorities issued instructions to customs officers to suspend, release or detain counterfeit Polo T-shirts featuring the American company's trademarks. Following that instruction, a number of Polo T-shirts were temporarily detained in a customs warehouse. Polo/Lauren applied to an Austrian court for an order prohibiting Dwidua, the consignor of the goods, from marketing those goods bearing its protected trademarks and authorising Polo/Lauren to destroy, at Dwidua's expense, the T-shirts which had been detained by the customs authorities. The Austrian Supreme Court, to which the case was appealed at last instance, was in doubt whether the Anti-Piracy Regulation applies *in the case where goods imported from a non-Member State are temporarily detained by a customs office while they are in transit to another non-Member State and where, moreover, the trademark proprietor has its registered office outside the European Union*. The Court therefore decided to stay the proceedings and to refer a preliminary question to the ECJ.

The ECJ considered that the external transit of non-Community goods could have an effect on the Internal Market, even though the goods are not subject to the corresponding import duties and are also otherwise treated as if they have not entered Community territory. If those goods placed under the external transit procedure are factually imported from a non-Member State and pass through one or more Member States before being exported

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<sup>37</sup> Press release from the Commission on 23 October 2007 ([www.trade.ec.eu/doclib/docs/2007/october/tradoc\\_136517.pdf](http://www.trade.ec.eu/doclib/docs/2007/october/tradoc_136517.pdf)).

<sup>38</sup> ECJ 6 April 2000, Case C-383/98, *Polo/Dwidua*, ECR 2000, p I-2519.

to another non-Member State, there is a risk that counterfeit goods may be fraudulently brought on to the Community market. This leads the ECJ to the decision that the Anti-Piracy Regulation is to be interpreted as being applicable where non-Community goods in transit trade are temporarily detained in a Member State by the customs authorities of that state on the basis of the Anti-Piracy Regulation and at the request of the company which holds rights in respect of those goods which it claims have been infringed and whose registered office is in a non-Member State.

*Montex/Diesel*<sup>39</sup>

The dispute between Montex and Diesel shows some similarities with the *Polo/Dwidua* case. The Irish company Montex produced jeans by exporting the different pieces from Ireland to Poland, including parts that incorporate trademarks of the fashion jeans company Diesel.<sup>40</sup> Once the pieces had been sewn together in Poland, Montex reimported them to Ireland, where Diesel has no trademark protection. Before Poland joined the European Union, the German customs seized a consignment of pairs of counterfeit Diesel jeans, which were transported from Poland to Ireland by truck. Montex objected against the seizure, claiming that the mere transit of goods through Germany did not infringe Diesel's trademark rights. Diesel disagreed and applied for an order prohibiting Montex from carrying its goods across the territory of Germany, or from allowing such transit. It also requested that Montex be ordered to consent to and to bear the costs of the destruction of the jeans or to remove all labels and other distinctive signs bearing the name Diesel. Montex, having lost at first instance and on appeal, appealed further to the German *Bundesgerichtshof*, which decided to stay the proceedings and refer the following questions to the ECJ for a preliminary ruling on the following questions:

1. Does a registered trademark grant its proprietor the right to prohibit the transit of goods with the sign?
2. If the answer is in the affirmative: may a particular assessment be based on the fact that the sign enjoys no protection in the country of destination?
3. If the answer to (1) is in the affirmative and irrespective of the answer to (2), is a distinction to be drawn according to whether the article whose destination is a Member State comes from a Member State, an associated state or a third country? Is it relevant in this regard whether the article has been produced in the country of origin lawfully or in infringement of a right to a sign existing there held by the trademark proprietor?

<sup>39</sup> ECJ 9 November 2006, Case C-281/05, *Montex*, ECR 2006, p I-10881.

<sup>40</sup> The customs seal procedure is used for those exports.

In its judgment, the ECJ starts by emphasising that the external transit of non-Community goods is based on a legal fiction and that goods placed under this procedure are subject neither to the corresponding import duties nor to the other measures of commercial policy; it is as if they had not entered Community territory.<sup>41</sup> The ECJ also reminds that transit, which consists in transporting goods lawfully manufactured in a Member State to a non-Member State by passing through one or more Member States, does not involve any marketing of the goods in question and is therefore not liable to infringe the specific subject matter of the trademark.<sup>42</sup> In an earlier judgment in *Class International*,<sup>43</sup> the ECJ had for the same reason drawn the conclusion that the mere transit trade of original non-Community goods does not constitute an infringement of trademark law. The trademark proprietor cannot even oppose the offering for sale of original non-Community goods bearing a trademark, unless the offering for sale of the goods necessarily entails their being put on the market in the Community.

In *Montex/Diesel* the ECJ strictly holds on to the basic principle that the trademark proprietor can only prohibit the transit through a Member State in which that mark is protected (Germany) of goods bearing the trademark and placed under the external transit procedure, whose destination is another Member State where the mark is not so protected (Ireland), if those goods are subject to the act of a third party while they are placed under the external transit procedure which necessarily entails their being put on the market in that Member State of transit. It is in that regard, in principle, irrelevant whether goods whose destination is a Member State come from an associated state or a third country, or whether those goods have been manufactured in the country of origin lawfully or in infringement of the existing trademark rights of the proprietor in that country. The content of the Anti-Piracy Regulation did not induce the ECJ to decide otherwise, because the ECJ was of the opinion that none of the provisions of the Anti-Piracy Regulation introduces a new criterion for the purposes of ascertaining the existence of an infringement of trademark law or to determine whether there is a use of the trademark liable to be prohibited because it infringes that law.<sup>44</sup> The Advocate-General had concluded likewise.<sup>45</sup> He emphasised that it could not be inferred from the Anti-Piracy Regulation or from the earlier case law that the mere transit must be regarded as giving rise to an infringement of the

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41 See the *Polo/Dwidua* case *supra*.

42 See, regarding the transit through France of goods originating in Spain and destined for Poland, ECJ 23 October 2003, Case C-115/02, *Rioglass* and *Transremar*, ECR I-12705, § 27.

43 See ECJ 18 October 2005, Case C-405/03, *Class International*, ECR 2005, p I-8735.

44 See *supra* the *Montex/Diesel* judgment.

45 Conclusion Advocate-General Maduro dd 4 July 2006 in Case C-281/05.

trademark proprietor's rights in the Member State of transit.<sup>46</sup>

As a consequence of the judgments in the *Class International* and *Montex*, the trademark proprietor can take action in fewer cases than before. Before those ECJ judgments, it was often assumed by the national courts that the concept of import in trademark law related to the *factual* bringing of the goods into the territory of the Community. Whether goods had been imported in the sense of customs law was thought to be irrelevant.<sup>47</sup> The ECJ has now explicitly rejected that view: the trademark holder can, on the basis of trademark law, not oppose the mere transit trade of original (*Class International*) or even counterfeit (*Montex*) non-Community goods, unless the transit trade necessarily entails that the goods are put in the market within the European Economic Area (EEA). That mere transit trade does not constitute a trademark infringement, does not imply that transit trade is also immune from action by the customs authorities. In *Polo/Dwidua*, the ECJ did not leave any misunderstanding as to the possibility for customs authorities to take measures with respect to goods that are placed under the external transit procedure.<sup>48</sup> The strict distinction the ECJ makes between customs action on the basis of the Anti-Piracy Regulation on the one hand, and action taken by the trademark holder on the other hand, probably relates to the different legal bases of the legislation in force. The Anti-Piracy Regulation is based on Article 133 EC (the combat against counterfeiting and piracy forms part of the communal trade policy – a public interest), whereas the Trademark Directive has as an objective to protect the private interests of the individual trademark holders by protecting the specific subject matter of its trademark rights. The public interest can be at stake in case of the mere transit trade of counterfeit and piracy of non-Community goods, without trademark rights being infringed.

### **Bottlenecks in the combat against counterfeiting and piracy**

The European Community and its Member States are generally acknowledged for protecting and enforcing IPR according to quite high standards. Despite

46 See Article 1 of Regulation 3295/94.

47 Eg, Tribunal Court of Rotterdam 7 January 200, BMM-Bulletin 2000, 23 (*Adidas/Hapag Lloyd*) and Court of Appeal Leeuwarden 23 February 2000, referred to in Court of Cassation 15 February 2002, NJ 2003, 464 (*Kamstra/Jack Daniel's*).

48 Some commentators argue otherwise. See eg, F. Eijvogels, 'Some remarks on *Montex Holdings Ltd/Diesel SpA*' ([www.boek9.nl](http://www.boek9.nl), B9 2968), who argues that the ECJ would have decided in favour of Diesel if Diesel had invoked the fiction of Regulation 3295/94 Article 2 because the manufacturing of jeans in Germany would infringe trademark rights of Diesel. The manufacturing fiction has been removed from the new Anti-Piracy Regulation and is only still referred to in §8 of the preamble of that regulation.

that active approach, it is very unlikely that all counterfeiting and piracy can be eradicated. The increasing use of the internet to sell counterfeit products (mainly medicines), the transport of small quantities by air or by post and the high quality of counterfeit products (the quality of counterfeit products is now often so good that it is becoming increasingly difficult for customs authorities and even for right holders themselves to distinguish counterfeit products from real products)<sup>49</sup>, increase the challenge faced by customs authorities and holders of IP. The global scale of the problem also often makes it difficult to act, particularly due to enforcement problems in countries outside the European Union (see '*Enforcement problems in third countries*' below). Another challenge in the combat against counterfeiting and piracy is to get the balance right between the legitimate interests of IPR owners on the one hand, and the protection of an undisturbed free trade on the other hand (see '*Tension between IP protection and free trade*' below). In '*The danger of a scattered approach*' below a few comments are made with respect to the justification for specific IP measures and the danger of a scattered approach.

### **Enforcement problems in third countries**

An important bottleneck in combating counterfeiting and piracy is that IP holders are often confronted with infringements of their rights outside Europe, notably in countries in the Far East such as China and South Korea. In those cases, the IP holder will not be able to benefit from the European legislation (which is available to Community right holders in cases of violations of their rights within the Community; but not available in the case of imports of counterfeit goods into the European Union when those violations occur in third countries and the resulting goods are either consumed domestically or exported to other third countries). Although such violations occur outside Europe, it goes without saying that Community right holders are directly affected by them.

A major problem is that, even though most countries have IPR legislation, it is not always easy to enforce rights in all countries. Despite the implementation of the TRIPs Agreement under the auspices of the WTO, the legal situation in various countries (eg, China and South Korea) shows major disparities which do not allow the holders of IPR to benefit from an equivalent level of protection throughout the various member countries. This is one of the reasons the EC has set up an Enforcement Strategy focusing on third countries. Some of the lessons learned at Community level could be of interest globally and an active cooperation with the most involved

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49 *Supra* n6 at p5.

international enforcement bodies such as the World Customs Organisation, Europol and Interpol could contribute to more effective combat against counterfeiting and piracy.<sup>50</sup>

*Tension between IP protection and free trade*

The downside of excessive measures against counterfeiting and piracy is that innocent parties are sometimes the victim of (abuse of) those measures. In the Netherlands, for example, it has more than once occurred that holders of IPR have successfully requested a seizure of goods or evidence without having supplied any (convincing) proof of an infringement on their IPR. Interim judges often automatically give permission for seizure and are led by the thought that the 'alleged infringer' can easily strike back by asking for the lifting of the seizure if the permission was not justified.<sup>51</sup> That might be true, but it can be questioned whether that safeguards the rights of the alleged infringer in a sufficient manner. Once permission has been given for the seizure of goods and/or evidence, an innocent company can be confronted with visits by bailiffs who – often accompanied by experts and sometimes even by the IP holder himself – come and look behind the scenes and 'fish for information'. In the interests of undisturbed trade by innocent third parties and the protection of business secrets, it is important that the judicial authorities critically assess whether there is indeed a (factual and legal) basis for giving permission for a seizure or to allow for other far-reaching measures. Similarly, customs authorities should only apply the Anti-Piracy Regulation if they suspect counterfeiting and piracy, despite the fact that IP holders sometimes also press for the application of the Anti-Piracy Regulation in cases which are not covered by the Anti-Piracy Regulation (eg, where there is discussion as to whether original goods are entering the EEA with or without the consent of the trademark holder). This was rightly acknowledged by Judge Fysh QC in the UK case *Mastercigars Direct Ltd v Hunters & Frankau Ltd*<sup>52</sup> who considered: '...that the parallel imports case is irrelevant to the detention of the cigars by HMCE, whose powers may only be exercised in relation to goods which are actually counterfeit'. Both the national judges and customs authorities have the important role of preventing holders of IPR from abusing the far-reaching tools with which they have been provided.

Also on the policy-making and legislative level, one should be aware of the tension that can arise between the protection of IPR and the free circulation of goods. The strong lobby of IP holders has certainly been rewarded, but

50 *Supra* n6 at p13.

51 See eg, Tribunal Court Dordrecht 23 June 2004, LJN: AP3695 §15.

52 High Court of Justice dd 10 March 2006, *Mastercigars Direct Lt v Hunters & Frankau Ltd*, §2 (published on [www.bailii.org/ew/cases/EWHC/Cb/2006/410.rtf](http://www.bailii.org/ew/cases/EWHC/Cb/2006/410.rtf)).

there are good reasons to question whether enough attention has been paid to the position of other parties. It is fair to say that an instrument such as the Enforcement Directive creates a somewhat unbalanced situation: it reinforces the position of the IP holder, but only partly takes into consideration the position of alleged infringers. The IP holder, for example, has powerful measures for detecting infringements and establishing proof of that infringement. The other party, who has the impression that the IP holder is in possession of documents that give rise to arguments for the invalidity of the rights, does not have similar tools to have his suspicion confirmed.<sup>53</sup> In future, due consideration should be given to the importance of striking a fair balance between the protection of IP holders and the protection of free trade.

### *The danger of a scattered approach*

It can also be questioned whether IP law requires a fundamentally different approach from other fields of law. The Enforcement Directive is permeated by the thought that an infringement of IPR is more serious than a violation of 'normal' property rights, but is that always the case?<sup>54</sup> Others have rightly observed that the implementation of specific IP provisions into national non-specific procedural laws results in a fragmented approach. In the Netherlands, for example, the holder of IPR is now entitled to full payment of all his legal expenses,<sup>55</sup> whereas a victim of a traffic accident only receives a (limited) fixed amount of compensation. It is difficult to think of a convincing justification for that distinction. It would certainly be advisable to pay more attention to the importance of maintaining a degree of harmony between different fields of law. The fact that holders of IPR now have their own procedural law is in itself not a problem, but imagine how complicated and incoherent legislation would become if there were no uniformity and if every field of law had its own procedural rules. Before introducing new measures for fighting counterfeiting and piracy, one should therefore question whether specific

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53 JLRA Huydecoper, *Nous maintiendrons – de nieuwe "Richtlijn handhaving"* ('the new Enforcement Directive'), AMI 2004, p123.

54 The Enforcement Directive has been widely criticised because of its draconian approach. See inter alia WR Cornish, J Drexler, R Hilty & A Kur, 'Procedures and remedies for enforcing IPRS: the European Commission's proposed directive' (2003) EIPR 25(10), 447–449; R Gross, 'EU Passes Dangerous IP Law, Despite MEP's Conflict of Interest "Midnight Knocks" by Recording Industry Executives Get Go-Ahead' ([http://ipjustice.org/CODE/release20040309\\_en.shtml](http://ipjustice.org/CODE/release20040309_en.shtml)); R Anderson, 'The Draft IP Directive – a threat to Competition and to Liberty' ([www.cl.cam.ac.uk/~rja14/draftdir.html](http://www.cl.cam.ac.uk/~rja14/draftdir.html)); PB Hugenholtz, 'Een overbodige richtlijn' (2004) IER p 248 en JLRA Huydecoper, *supra* n53 at p122.

55 See Article 13, Enforcement Directive (implemented in Article 1019h of the Dutch procedural law).

IP measures are justified and fit into the existing rules.

## **Conclusion**

The EC has adopted a very active approach towards the problem of counterfeiting and piracy. Among the most important measures are the Anti-Piracy Regulation that concerns customs action against goods suspected of being counterfeit or pirated and the Enforcement Directive that provides IP holders with some strong procedural tools to enforce their rights.

Despite all the emphasis on combating counterfeiting and piracy, those problems have not disappeared. One of the most difficult issues is that IPR are often violated in countries where less attention is given to the protection and the enforcement of IPR.

Although it is certainly good that much is being done to fight counterfeiting and piracy in the European Union, one should be careful not to concentrate solely on the interests of IP holders, but to try to strike a fair balance between the protection of IP holders and the protection of free trade. Furthermore, one should carefully assess whether specific IP measures are justified and whether they fit into the existing rules. As long as enough consideration is given to those aspects, measures against counterfeiting and piracy deserve a warm welcome.