

Seizing the initiative over goods in transit

The recent seizure of pharmaceutical goods in Europe has reignited the debate over how goods in transit are treated – with political interests and economic threats threatening to muddy the legal waters

The recent threat by Indian pharmaceutical companies to boycott Dutch airline KLM as part of ongoing efforts to force EU member states to stop detaining Indian drug shipments at their ports illustrates the highly charged debate surrounding the handling of goods in transit.

In this instance India is responding, among other things, to action taken in 2009 by the Dutch customs authorities which saw the detainment of a consignment of losartan, a generic drug produced in India, which was on its way to Brazil. DuPont and Merck & Co own the patent rights to this drug in the European Union, but not in India or Brazil. The Indian pharmaceutical industry – one of the country's top export earners – reacted angrily, claiming that the Dutch customs authorities disapprove of Dutch ports being used as transit points for products that would infringe European IP rights even where those products are destined for markets outside the European Union, where no such IP rights exist.

Recent decisions of various national courts across Europe have shown that there is considerable divergence in the approach taken to transit goods that infringe no IP rights in the country of either origin or destination. It is important to consider the different approaches taken in such situations.

In addition to examining the specific complaints made by India and Brazil to the World Trade Organization (WTO), an important aspect of this discussion centres on the WTO Doha Declaration, which stresses that the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) should be interpreted in a way that supports public health by promoting both access to existing medicines and the creation of new medicines.

EU Customs Regulation

The EU Customs Regulation (1383/2003, previously 3295/94) is designed to harmonize the legal framework for combating trade in counterfeit goods and seeks to improve the import, export and re-export systems that apply to goods which infringe certain IP rights. The regulation also applies to goods that are in transit from one

non-EU state to another (regardless of whether the party seeking to enforce its rights has a registered office in the European Union). The preamble provides that in cases where counterfeit or otherwise infringing goods originate in third countries, their entry into the EU customs territory, including transshipment, should be prohibited, and that a procedure should be set up to enable customs authorities to enforce this prohibition as effectively as possible. The reason for this is that goods in transit may still have an effect in Europe, as they may ultimately be introduced fraudulently onto the EU market.

The criteria for determining whether goods in transit infringe certain IP rights, and thus whether they should be detained (or destroyed), differ from jurisdiction to jurisdiction. This divergence is illustrated by a discussion of the key cases to date.

Fact and productive fiction

The decision in *Montex Holdings v Diesel SpA* (Case C-281/05, November 9 2006) caused quite a stir. In this case the German customs authorities, on the application of Diesel, detained a consignment of women's jeans bearing the DIESEL mark. The jeans were produced by Montex in Poland (a non-EU member state at the time) and were on their way to Ireland, where Diesel had no trademark registration.

According to Diesel, the transit of these goods through Germany infringed its German trademark rights. Based on the preliminary questions asked by the German court, the European Court of Justice (ECJ) held that Diesel could not oppose the mere transit of these goods on the basis of its trademark rights, unless it could prove that the transit through Germany would necessarily entail the marketing of the jeans in Germany.

The ECJ referred to its earlier decision in *Class International BV v Beecham Group plc* (Case C-405/03, October 18 2005), in which it held that a trademark proprietor can oppose the sale or offering for sale of genuine non-EU goods when their transit necessarily entails the putting of those goods onto the EU market. This places a fairly heavy burden of proof on mark owners that seek to oppose the transit of genuine goods which are destined for countries outside the European Union.

Montex raised a fair amount of discussion. According to some scholars and national courts (eg, the Dutch courts), the decision is irrelevant to the interpretation of the EU Customs Regulation, since the preliminary questions asked by the German court required the ECJ to interpret only Articles 5(1) and (3) of the First Trademark Directive (89/104/EEC). It does not appear, from the opinion of the advocate general or the subsequent ECJ judgment, that the



provisions of the EU Customs Regulation were considered. The Hague District Court thus discussed the impact of *Montex* in its decision in *Sisvel SpA v Sosecal* (311378/KG ZA 08-617, July 18 2008).

In this case the Dutch customs authorities detained a stock of MPEG audio products originating from China and destined for Brazil. Sisvel requested seizure of the goods based on alleged patent infringement by Sosecal. Sosecal requested withdrawal of the seizure on the basis that the goods in transit could not infringe Sisvel's patent rights. The provisional relief judge of the Hague District Court decided that in order to determine whether the goods qualified as "goods infringing an intellectual property right" within the meaning of Article 2 of the EU Customs Regulation, the 'production fiction' had to be applied. This would allow the rights holder to act against the goods in transit if the rights holder would have had a cause of action had the goods been produced in the Netherlands. As Dutch patent law allows a patentee to oppose the mere manufacture of products, the patentee in this case also had a cause of action to oppose the transit of the MPEG audio products.

The production fiction is based on Article 6 (2)(b) of the former EU Customs Regulation (3295/94) and was confirmed by the Dutch Supreme Court in *Philips v Princo* (NJ 2007/85, March 19 2004). Although the current version of the EU Customs Regulation (1383/2003) no longer provides for the production fiction in Article 6 (2)(b), the Dutch courts still apply it based on Recital 8 of the EU Customs Regulation.

In *Sisvel* the Dutch court pointed out that the production fiction was not discussed in *Montex*, since the preliminary questions asked by the German court focused solely on the First Trademark Directive. The court argued that should the *Montex* exception be applied, the EU Customs Regulation would, to a large extent, be deprived of its purpose.

Nokia adds to confusion

The more recent decision of the UK High Court in *Nokia v Her Majesty's Revenue & Customs* ([2009] EWHC 1903 (Ch)) has further confused the issue. In this case the judge applied the *Montex* exception, but also recognized that the result – that is, the refusal of Nokia's request that counterfeit goods be seized in transit – was unsatisfactory.

In this case Her Majesty's Revenue & Customs stopped a consignment of goods at Heathrow Airport which was being shipped from Hong Kong to Colombia. The consignment comprised approximately 400 mobile telephone accessories bearing the NOKIA trademarks. Nokia requested seizure of the goods based on infringement of its marks. To assess whether the goods could be regarded as "goods infringing an IP right", the UK judge considered the following:

- There is no clear indication in the EU Customs Regulation that it will extend the rights conferred by a registered trademark if the trademarked goods will not enter the market where those rights exist.
- The scheme of the EU Customs Regulation is wholly inconsistent with this suggestion, since the rights holder must commence proceedings to determine whether its IP rights have been infringed under national law.
- *Montex* confirms that the former EU Customs Regulation (3295/94) introduced no new criterion for ascertaining infringement under national law.
- The definition of 'counterfeit goods' in Article 2 of the EU Customs Regulation is tied firmly to the notion that the goods must infringe a trademark.

The UK judge did not believe that the production fiction in Recital 8 of the EU Customs Regulation bears the significance that the Dutch court afforded it, finding no echo of the production fiction in the current regulation. Given that the same trademark or patent is often owned for the same goods by various proprietors across the world, the production fiction would cause an unsatisfactory situation. Goods that were lawfully made in one territory and intended for lawful use in another would be subject to seizure upon transshipment through a member state in which the mark was registered in the name of a third party. According to the UK judge, this could not have been the intention of the EU Customs Regulation.

Nokia appealed the decision and the Court of Appeal indicated that, in line with a similar case before the Antwerp Court in Belgium (*Koninklijke Philips Electronics nv v Lucheng Meijing Industrial Company Ltd*, November 4 2009), the issue deserves a reference to the ECJ – especially since the views of the UK court and the Dutch court are diametrically opposed. The Court of Appeal will now refer a question regarding the interpretation of the current regulation to the ECJ.

Weighing political considerations

In *Philips*, the electronics company requested the Belgian customs authorities to detain a consignment of electric shavers that would infringe its international design rights, which were being shipped from China to an unknown destination via Belgium. This request was granted and Philips subsequently requested the Antwerp Court to prohibit Lucheng, among others, from importing or transshipping the allegedly infringing goods, based on the production fiction in the former EU Customs Regulation. Lucheng

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Meijing Industrial argued that Philips had to prove that the transit of the goods necessarily entailed the marketing of the goods in Belgium, based on *Montex*.

The Antwerp Court asked whether a rights holder is still adequately protected if infringing goods are released while a final destination is pending. It has submitted a preliminary question to the ECJ, asking whether Article 6 (2)(b) of the former EU Customs Regulation constitutes harmonized EU law, meaning that national courts must apply the production fiction when assessing whether goods in transit infringe national IP rights. It may take up to one or two years for the ECJ to answer this preliminary question, but this is a step in the right direction and might provide an example for other courts to follow.

It seems that the reference of the preliminary questions to the ECJ in *Nokia* and *Philips*, regarding the interpretation of the previous and current EU Customs Regulation, has also influenced the decisions of the Dutch court. In a recent case between Cybergun and KLM/Wargaim (*Cybergun SA v Koninklijke Luchtvaart Maatschappij NV*, January 20 2010), the Dutch court decided to stay its decision until the ECJ has clarified the preliminary questions in both *Nokia* and *Philips*. In this case, on the request of Cybergun, Dutch Customs detained a consignment of allegedly infringing weapons used for war simulation and army training purposes, which had been shipped from Taiwan and were destined for Russia.

Clearly, although the EU Customs Regulation was adopted to contribute to a harmonized legal framework within the European Union, it has not yet resulted in the desired clarity. This legal uncertainty is exacerbated by the political and economic implications arising from the need to weigh the protection of rights holders and consumer health and safety against the fact that such goods originate from and are destined for countries in which there are no existing IP rights; and further, in the case of pharmaceuticals, against the need to promote access to medicines and protect least-developed countries. As the UK judge suggested in *Nokia*, a review of the adequacy of the existing measures to combat the international trade in fake goods is much needed. For now, however, the debate fuelled by the India-Netherlands dispute continues.

Background to India's complaints

India boasts one of the world's most successful generic medicine industries. Generic medicines are intended as equivalents of the original pharmaceuticals, contain the same essential active substances and are interchangeable with their brand-name counterparts, but are less expensive than the originals and thus offer an alternative for developing countries which may be unable to afford the originals.

However, a generic medicine can be marketed only once the patent has expired and must comply with international patent law. As many generic medicines (eg, those produced in India and destined for Brazil) are not protected by registered patents or trademarks in India or Brazil, problems arise when the products are shipped to Brazil via a transit port where the original medicine is patent or trademark protected. The argument centres on the question of which interest should then prevail: access to medicine or the protection of rights holders?

With regard to the former, in the Doha Declaration of November 14 2001, WTO members stressed the importance of implementing and interpreting TRIPs in a way that supports public health by promoting both access to existing medicines and the creation of new medicines.

The Doha Declaration was specifically designed to respond to concerns about the potential implications of TRIPs for access to

medicine and emphasizes that TRIPs does not, and should not, prevent member governments from acting to protect public health. It is thus crucial that developing countries can participate in the international trade of such medicines. According to the United Nations Conference on Trade and Development (UNCTAD), trade connectivity depends on a number of factors, including a country's ports, the size of the ships that can access them and the number of destinations served. The best-connected countries are in Asia, followed by the European Union and the United States. Countries that are further away from each other will trade less, although cost is the most important determinant of trade volumes, according to UNCTAD, especially with regard to developing countries.

Political, economic and legal routes to change

The abovementioned balancing of interests is a difficult matter – probably more for political and economic reasons than for legal ones.

Political discussion has already been initiated by both Brazil and India, which raised complaints at the WTO's General Council meeting on February 3 2009 and the TRIPs Council meeting on March 3 2009 regarding the detainment of shipments of Indian-made pharmaceuticals, destined for Venezuela via France, while in transit in the European Union. It is unclear whether this avenue will be successful – the process is relatively time consuming and the director general of the WTO has already notified the countries that for the time being, he will not mediate between the states, since the matter is being explored at bilateral level and by the reference of the preliminary questions to the ECJ.

India's threatened boycott of Dutch airline KLM might thus be more effective. However, as of the date of writing, the author could find no evidence of any actual boycott. One reason for this could be that rearranging shipment routes would increase the cost of generic medicines. According to UNCTAD, cost is one of the most important determinants of trade volumes between countries, and as most generic medicines are destined for third-world countries (precisely because they are cheaper), the rearrangement of shipment routes would not have positive implications for access to medicine.

One potential legal solution would be the amendment of the EU Customs Regulation to provide greater clarity on the existence (or otherwise) of the production fiction and the impact of *Montex*. After all, those court decisions which have followed *Montex* have not helped to clarify the issue. While the legal route might be lengthy, it would arguably be the most effective.

In the author's opinion, the best way to clarify the status of such goods would be to submit a clear and complete set of preliminary questions to the ECJ – perhaps even with similar questions submitted by various national courts in similar cases. The road to amendment is a long one, and while the national courts of the member states hold different views on the issue this road will be longer still. A step in the right direction would thus be to have the ECJ answer, clearly and completely, preliminary questions on the EU Customs Regulation, the production fiction and the impact of *Montex*. Member states could then go about initiating amendments to the EU Customs Regulation. [WTR](#)

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