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IMPACT ASSESSMENT

Accompanying the document

**Proposal for a
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
concerning customs enforcement of intellectual property rights**

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This impact assessment commits only the Commission's services involved in its preparation. The document has been prepared as a basis for comment and does not prejudice the final form of any decision to be taken by the Commission.

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1. INTRODUCTION

1.1. General overview

The Commission's Communication "Europe 2020"¹ underlined the importance of strengthening knowledge and innovation and promoting a more competitive economy as drivers of a smart and sustainable growth. Intellectual Property Rights (IPR) are fundamental to these key priorities. For the benefit of its citizens and companies, the European Union is committed to establishing a high level of protection of intellectual property rights on its territory.

Intellectual property protection is a central public policy on which the knowledge-based economy rests. Rapid changes in product development, technologies, social drivers and policies all underscore its growing importance. IPR provide an increasingly critical element for spurring innovation, for stimulating investments needed to develop and market new innovations, and for diffusing technology and other types of knowledge in socially beneficial ways. Sound and strong framework conditions for IPR are therefore indispensable. The economic importance of IPR is likely to increase further in the future, with growing evidence of ever increasing intellectual property infringements. Economic losses relating to counterfeiting have been estimated at around €500 billion per year through lost business opportunities and tax revenues. In addition, counterfeited products are often substandard and can even be dangerous, posing health and safety risks.

Without effective means of enforcing intellectual property rights, innovation and creativity are discouraged and investment diminished. It is therefore necessary to ensure that the substantive law on intellectual property is applied effectively in the Union. In this respect, the means of enforcing intellectual property rights are of paramount importance.

The World Trade Organisation (WTO) recognised the importance of protecting and enforcing intellectual property rights, as well as the role of customs in the border enforcement of such rights, with the adoption of the Agreement on Trade Related aspects of Intellectual Property Rights (TRIPS) in 1994. This instrument, legally binding on all WTO members, contains specific provisions on the border enforcement of IPR. These obligations have been implemented into EU law, by Council Regulation (EC) No 1383/2003 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 rights² (hereafter "the Regulation").³

¹ Communication from the Commission: 'Europe 2020: A strategy for smart, sustainable and inclusive growth' of 3 March 2010, COM (2010)2020.

² *OJ L 196*, 2.8.2003, p. 7–14

³ The predecessors of the Council Regulation (EC) No 1383/2003 are:

- Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods. (*OJ L 341*, 30.12.1994, p. 8–13)

Extensive information has already been collected within the context of the European Observatory on Counterfeiting and Piracy⁴, concerning the growing phenomenon of counterfeiting and piracy and a number of reports and studies have been drawn up in various fora, on related issues. An OECD study, concerning the magnitude of counterfeit and piracy⁵, responded to the growing concern expressed by a number of countries, with the trade on counterfeit and pirated goods. The report, updated in 2009, concluded that the international trade in such goods has grown steadily over the last decade, from just over USD 100 billion in 2000, to up to USD 250 billion in 2007. It was acknowledged that the collection of data for this study was extremely difficult as the source information was often not comparable, due to different methodologies used for collection, analysis and reporting. However, with globalisation and more and more emerging economies competing with EU products and services, both with low and high value added, trade related IPR infringements are on the rise.

A recent report⁶ by the French Union des Fabricants stated that 27 percent of companies spent more than EUR 1 million per year protecting their rights. In the same report 57 percent of companies recognised the direct impact of counterfeiting on employment, while 54 percent stated that counterfeiting is a barrier to innovation.

These concerns diminish ambition and the potential to develop innovative new products and services, ultimately resulting in lower economic growth and lost jobs⁷. This implication is supported by a study by the Centre for Economics and Business Research (CEBR), which stresses that a reduction in investment could have a negative effect on GDP across the EU, to within a region of EUR 8 billion per year⁸. Losses of this magnitude would clearly lead to subsequent reductions in employment.

A study carried out on behalf of the Commission's Enterprise and Industry Directorate General, in 2007, confirmed that Small and Medium Enterprises (SME) were found to have been affected by lost sales, as a direct result of counterfeiting and piracy⁹. The associated damage has also led to impaired business reputations and subsequent harm through job losses and a general stifling of funds for investment in innovation and research and development.

- Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods (*OJ L 357, 18.12.1986, p1-4*)

⁴ See Commission Communication: 'Enhancing the Enforcement of Intellectual Property Rights in the Internal Market', of 11 September 2009 (COM(2009) 467

⁵ OECD, Magnitude of counterfeiting and piracy of tangible products – November 2009 update, http://www.oecd.org/document/23/0,3343,en_2649_34173_44088983_1_1_1_1,00.html.

⁶ Union des Fabricants April 2010 report, available at <http://www.unifab.com/downloads/RAPPORTUNIFABavril2010.pdf>

⁷ Union des Fabricants April 2010 report, available at <http://www.unifab.com/downloads/RAPPORTUNIFABavril2010.pdf>

⁸ CEBR (2000), The Impact of Counterfeiting on Four main sectors in the European Union, Centre for Economic and Business Research, London.

⁹ Technopolis (2007), 'Effects of counterfeiting on EU SMEs and a review of various public and private IPR enforcement initiatives and resources', available at http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?action=display&doc_id=4506&userservice_id=1&request.id=0

The Commission's most recent report on EU customs enforcement of intellectual property rights, concerning 2009¹⁰, noted that while the luxury goods sector was traditionally the sector most affected by IPR infringements, more and more potentially dangerous items, used by European consumers in their daily lives, were now being detained by customs. These included medicines, foodstuffs, beverages, shampoos, toothpastes, toys, household appliances, automotive components, electrical components, chemicals and toiletries. In total, approximately 17 million items, or 18% of the total number of detentions made by EU Customs authorities in 2009, would have placed consumers at growing risk¹¹.

The rise of potentially dangerous counterfeit consumer products was illustrated in May 2010, when a two-year Europol investigation resulted in the seizure of 800 tons of counterfeit electrical products, including fake electricity generators, power drills and chainsaws, which did not comply with any European safety standards¹². The seized products represented a value of EUR 12 million and 60 people were arrested in connection with the seizures.

The United National Interregional Crime and Justice Institute (UNICRI) also confirms that dangerous counterfeits have infiltrated the automotive markets and that the incidence of counterfeit spare parts in the automotive sector could represent a loss to the industry of USD 12 billion per year¹³. In addition, UNICRI reports that according to the Toy Industries of Europe (TIE), one toy out of ten, in Europe, could be a counterfeit¹⁴.

Despite numerous reports on the impacts of IPR infringements on society, there is consensus across the board that the data used in these reports lacks credibility mainly due to the fact that sales of IPR infringing goods are of an illegal nature and the quantity of these illegal sales cannot really be known for certain¹⁵.

1.2. Border enforcement of IPR by customs

The 2009 report on EU Customs Enforcement of IPR included summary figures indicating the growing trend in terms of quantities of suspected IPR infringing goods identified by customs, as well as the number of cases where customs intervened (see table 1 - N.B. in 2004, the Member States of the EU increased to 25 and in 2007 to 27). When taken together with the general acceptance that the trade in IPR infringing goods is increasing, it is clear that the level of trade in IPR infringing goods would not only be maintained, but would indeed be magnified in the absence of remedial action.

¹⁰ EU Commission Report on EU Customs Enforcement of Intellectual Property Rights (Results at the EU border – 2009) can be found at http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics/index_en.htm

¹¹ DG TAXUD, 'Report on EU customs enforcement of intellectual property rights: Results at the EU border – 2009', available at: http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/statistics_2009.pdf

¹² <http://www.europol.europa.eu/index.asp?page=news&news=pr100521.htm>

¹³ UNICRI, 'Counterfeiting: a global spread, a global threat', 2008, <http://counterfeiting.unicri.it/report2008.php>

¹⁴ http://www.unicri.it/news/0712-4_Counterfeiting_PressKit.php

¹⁵ For more explanation on lack of reliable data see point 6.1

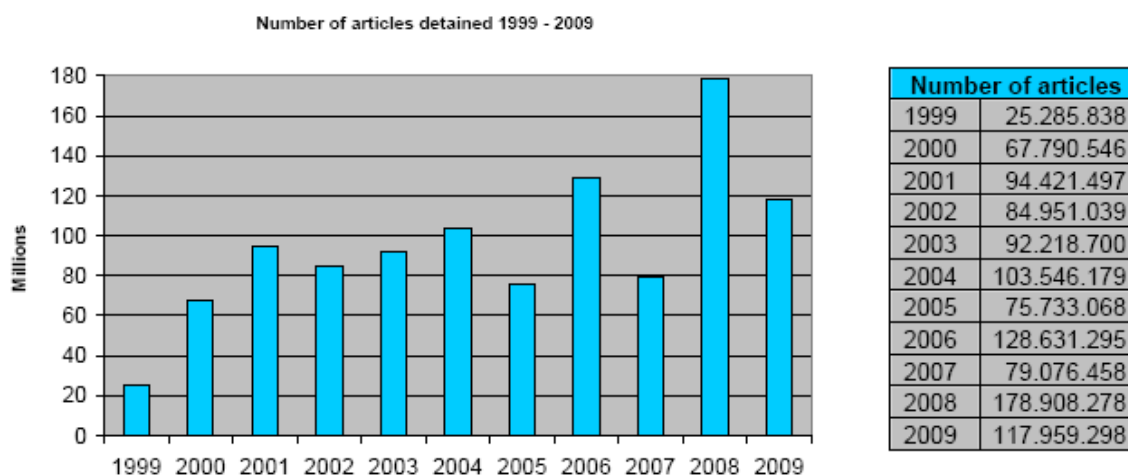
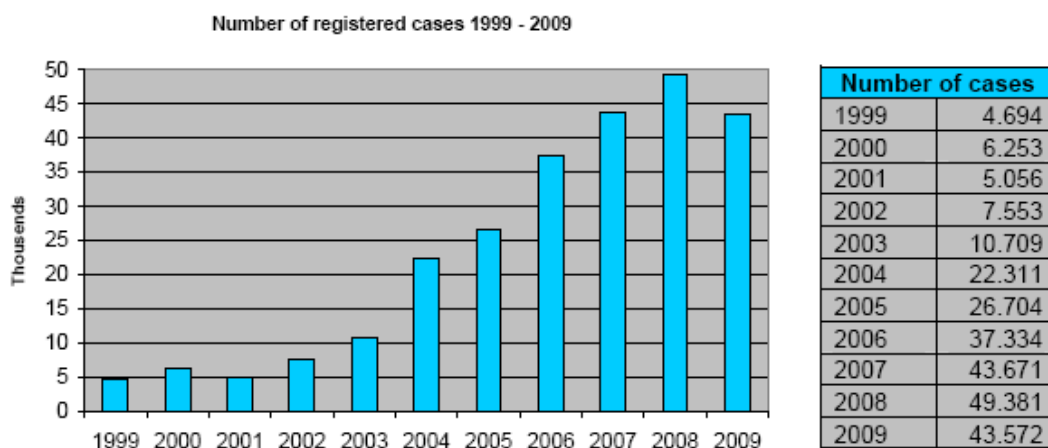


Table 1 - Number of cases and articles detained by customs 1999-2009

Source: EU Commission Report on EU Customs Enforcement of Intellectual Property Rights (Results at the EU Border 2009)

Each case as mentioned in table 1 refers to an interception by customs authorities in the EU. Each case contains a certain amount of individual articles that vary from 1 to several million and can contain articles of different categories and infringing one or more IPR (see table 1 above, and table 2 below).

1.3. Scope of this impact assessment

The TRIPS Agreement requires WTO Members to comply with certain minimum standards for the protection of a range of intellectual property rights listed in the Agreement. Members may choose to implement laws which give more extensive protection than required in the Agreement, as long as the additional protection does not contravene the provisions of the Agreement. The Regulation goes further in terms of border enforcement than the TRIPS requirements, thereby reflecting the EU's commitment towards high levels of IPR protection. Other like-minded jurisdictions, notably the United States, Japan and Switzerland have long considered that the minimal standards provided for by TRIPS did not go far enough in terms of

enforcement and have sought to strengthen international standards, through a new instrument entitled the Anti-Counterfeiting Trade Agreement (ACTA).

The ACTA negotiations involved the participation of 11 parties, including the EU and were concluded at the end of 2010, where the EU sought to raise the level of enforcement required by TRIPS towards the level of EU legislation. Though yet to be ratified, ACTA does raise international standards, including in the area of border enforcement.

Considering that the EU policy to protect and enforce intellectual property rights is clearly established, the baseline for this impact assessment is therefore not to assess whether customs should enforce IPR at the border. In addition to the existing international legal obligations, notably TRIPS, this is already well established as a political priority of the EU.

In September 2008, the Council¹⁶ invited the Commission and the Member States to review Regulation 1383/2003 and evaluate the improvements needed to the legal framework to improve customs action. The Council also invited the Commission to prepare a new Customs Action Plan to combat the trade in IPR infringing goods. This Action Plan¹⁷ was subsequently developed and endorsed by way of a Council Resolution in March 2009. It aims at tackling four main challenges: dangerous counterfeit goods, organised crime, globalisation of counterfeiting and the sale of counterfeits over the internet. The Action Plan included a section concerning the review of the Regulation, which detailed several elements of the Regulation that should be examined. These elements included provisions related to simplified procedures, small consignments, destruction, costs of storage, the provision of additional statistics, the development of an electronic system for applications for action and a database of customs detentions and related statistics and a potential extension of the scope of the Regulation, all of which were examined in the course of the review. The review was carried out by the Commission, in collaboration with the Member States through an expert working group created under the Customs 2013 Programme.

The result of the review was that the Commission and the Member States started to develop a database for the collection of companies' applications for action and statistics of customs detentions. The methodology for collecting statistics was also further refined. As regards the other issues under review, it was considered necessary to amend the Regulation with a view to, inter alia, clarify interpretation, harmonise practises among the Member States or address growing problems such as the rise in internet sales of IPR infringing goods. Recent developments at EU and international levels also influenced the outcome of the review.

From the above, it follows that the impact that is assessed here relates to three main issues. First, the possible additional IPR enforcement activities which customs may

¹⁶ Council Resolution of 25 September 2008 on a comprehensive European anti-counterfeiting and anti-piracy plan (2008/C 253/01)

¹⁷ Council Resolution of 16 March 2009 on the EU Customs Action Plan to combat IPR infringements for the years 2009 to 2012 (2009/C 71/01)

take in the future. Second, the need to make certain procedures less burdensome for customs and right-holders. Third, the need to ensure that all customs provisions remain compatible with developments in EU legislation, notably with regard to the Lisbon Treaty and the Charter on Fundamental Rights, as well as international commitments on for example, access to medicines.

2. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

2.1. Policy context

As mentioned above, in September 2008 and March 2009 the Council invited the Commission and the Member States to review the Regulation and prepare a proposal to modify the customs legislation, based on a review. Certain instances of detentions by customs authorities of shipments of generic medicines in transit through the EU, which occurred at the end of 2008, have given rise to concerns among certain Members of the WTO, Members of the European Parliament, NGOs and the civil society. It was claimed that such measures could hamper legitimate trade in generic medicines, thus contradicting the EU commitment to facilitating access to medicines in the developing world. On 11 and 12 May 2010 India and Brazil respectively requested consultations with the EU at the WTO in that regard. The concerns raised by India and Brazil during the WTO consultations, as well as the incidents of detentions which have triggered the WTO disputes against the EU, have shown that the relevant EU legislation for intellectual property enforcement by customs authorities could benefit from further clarification to increase legal certainty.

2.2. Internal consultations

The preparation of this Impact Assessment was monitored by an Inter-Service Steering Group, composed of Directorates General TAXUD, MARKT, TRADE, SG, DEV, LS, AGRI, HOME, COMP, JRC, SANCO, OLAF and ENTR. The Steering group met on three occasions. Its last meeting was convened on 29 November 2010.

2.3. Consultation of interested parties

To ensure all stakeholders were given ample opportunity to contribute to the review of the Regulation, the Commission carried out a public consultation through the internet. It presented a consultation paper on 25 March 2010, aiming to identify the possible options to address problems already detected through the experience gained during the years of implementation of Council Regulation 1383/2003. The response to the public consultation included 89 contributions from a wide range of stakeholders¹⁸, including right-holders, providers of services related to international trade (forwarders and carriers), lawyers, academic institutions, NGOs, public authorities and citizens. The consultation, initially envisaged to run until 25 May, was extended to 7 June 2010. An analysis of the outcomes of the public consultation can be found in the Annex.

¹⁸ The consultation paper and the 89 contributions are available at <http://\xxxxxxx>.

One of the main issues that attracted the interest of the respondents to the public consultation was that of costs of storage and destruction of goods (Question 6 of the consultation paper). However, the apportionment of costs is not addressed in this assessment. The intervention of customs usually represents just a first phase in the procedures to enforce IPR; once the alleged infringing goods have been detained by customs authorities, it is up to the right-holder to initiate legal proceedings to enforce his rights. The problem of determining who bears the costs should be handled within the judicial proceedings. The vast majority of the contributions to the public consultation stated that the scope of the provisions on costs in the Regulation should be limited to costs directly incurred by customs.

The Commission maintained regular contacts with the customs authorities of the Member States throughout the review process and there was an active dialogue to identify the main problems and the possible options to address them, notably:

- Under the Customs 2013 Programme, where a Project Group composed of experts from several Customs Administrations was created in order to examine the relevant legislation;
- Through the Customs Code Committee, section Counterfeit goods, composed of Member States' representatives and the Commission.
- Occasional seminars on issues related to the application of the Regulation, where the Customs Authorities of the Member States were invited.

During the course of these contacts, customs experts provided valuable experience of the day-to-day implementation of the current Regulation. Problems and possible weaknesses in the application of the Regulation, measures to strengthen the enforcement capacity of customs and other issues such as the relationship with industry were addressed. As customs experts were ensured confidentiality, it is not possible to present the formal views by Member State. However, in the preparation of this assessment full account was taken of the contributions made, as well as the possible options of the views expressed by the customs experts.

2.4. Impact Assessment Board opinion

A draft Impact Assessment was presented on 26 January 2011 to the Impact Assessment Board. Further to that meeting, the following improvements have been integrated into the document as requested in the opinion of the Board:

- the scope of the Impact Assessment has been clarified in Section 1, through a description of the policy constraints and of the review process.
- more evidence to demonstrate the existence and scale of the problems identified have been included in section 3. As the issues relate to illicit activities, credible data is extremely limited.
- the involvement of the Customs authorities in the review of the Regulation was addressed in Section 2.3 and the option to extend the scope of the Regulation was further refined in section 5.

- where appropriate, further information was included on the possible costs and benefits of extending the scope of the Regulation, though this could not be measured in detail. As indicated already, the lack of available data has placed limitations on the nature of this assessment and though the recently established European Observatory on Counterfeiting and Piracy aims to fill this void, for now, evidence remains anecdotal and is principally limited to examples, opinions of experts, complaints by right-holders.

- with regard to the issue of transit, the WTO Dispute Settlement Procedures are still on-going, though it is acknowledged that further clarification of the customs Regulation, to increase legal certainty would be beneficial and this has been taken into account in Section 3.

In addition, several other minor improvements were made, based on technical comments received from the Board. The Board also suggested that an indication of how the problems identified are likely to be distributed by Member State should also be given. Though it was not felt that a reliable table could be drawn up, the Commission's annual report on customs enforcement of intellectual property rights provides data on the number of cases dealt with by each Member State. Arguably, this table provides an indicator, to the extent that Member States with more cases would tend to encounter more of the difficulties associated with the application of the Regulation.

3. PROBLEM DEFINITION

3.1. Scope of the problems

3.1.1. General description

Customs authorities are able to take action against goods suspected of infringing certain intellectual property rights, which are under customs supervision in the customs territory of the Union. As shown in table 1 above, over the last 10 years, customs interceptions have shown a steady increase. The contribution of customs to IPR enforcement is recognised by public and industry stakeholders.

In the context of the review, three main issues were identified; firstly, some IPR are not enforced by customs at the EU border. The current Regulation provides for the enforcement of a broad range of IPR established under EU or national laws, including trademarks, copyrights, patents, plant variety rights and geographical indications, but the list does not cover all types of IPR. Topographies of semiconductor products for example are not covered. Furthermore, other types of infringements are also currently excluded from the scope of the Regulation, notably with regard to parallel trade and overruns.

Secondly, administrative procedures to enforce IPR are considered to be burdensome to customs and right-holders, especially in relation to small consignments. The procedures provide for the simplified destruction of goods considered to be infringing under certain conditions, without the need to formally establish an infringement in court. The implementation of such simplified procedure is presently not mandatory and consequently it is not implemented in all Member States.

Thirdly, certain general legal principles as developed and interpreted through the jurisprudence of the Court of Justice of the EU are not presently codified in the Regulation for all circumstances where they would apply (e.g. right to be heard, or liability of customs authorities). As a result, there was concern that certain aspects of the administrative procedures contained in the Regulation could lead to an unbalance between, on the one hand, the effectiveness of customs authorities in the fight against international trade in IPR infringing goods and on the other, the facilitation of legitimate trade and business and the right of economic operators to be treated fairly. These concerns were linked to the EU's international obligations in the framework of the WTO, as well as the new legal framework within the EU, following the entry into force of the Lisbon Treaty and in particular the Charter of Fundamental Rights.

3.1.2. The specific problems identified in the application of the current Regulation

3.1.2.1. Problem I: Some IPRs are not enforced by customs at the EU border

IPR enforcement at the EU borders is essential; once IPR infringing goods have been introduced into the internal market, it becomes more difficult to remove them from the market place. This difficulty was also illustrated in a contribution to the Public Consultation which said that despite their clear illegality under trade mark law, due to the inability of customs to seize parallel imports at the border, right-holders' only option was to set up a comprehensive (and complicated) surveillance mechanism scanning internal market sales. Right-holders have to go through hundreds of thousands of stores across the EU to identify such goods and take action on a case by case basis, i.e. for every single small sample found on the market. This ties up enormous resources, both for right-holders and for relevant enforcement authorities/courts; meanwhile, large-scale parallel importers continue to operate, as they know customs will not control them and only some of their customers / resellers will be spotted. The net effect of the current situation is that parallel importation, although illegal in theory, is extremely difficult to curtail in practice.

IPR enforcement by customs has evolved over time, matching the development of protection policies, as well as the growth and increasingly widespread nature of IPR infringements due to the globalisation of production and trade. Council Regulation (EEC) No 3842/86 first gave customs competence on IPR enforcement, which was limited to counterfeit trade mark goods. With Council Regulation 3295/1994, the scope of customs enforcement was extended to pirated copyrights and design rights, whereas the current Council Regulation 1383/2003 further extended the scope of infringements.

The Regulation presently covers counterfeit trade mark goods, pirated copyright and design goods, goods infringing a patent right, goods infringing a supplementary protection certificate for plant protection products or medicinal products, plant variety rights, and protected designation of origin and protected geographical indication for wines, spirits and agricultural farm products and foodstuffs.

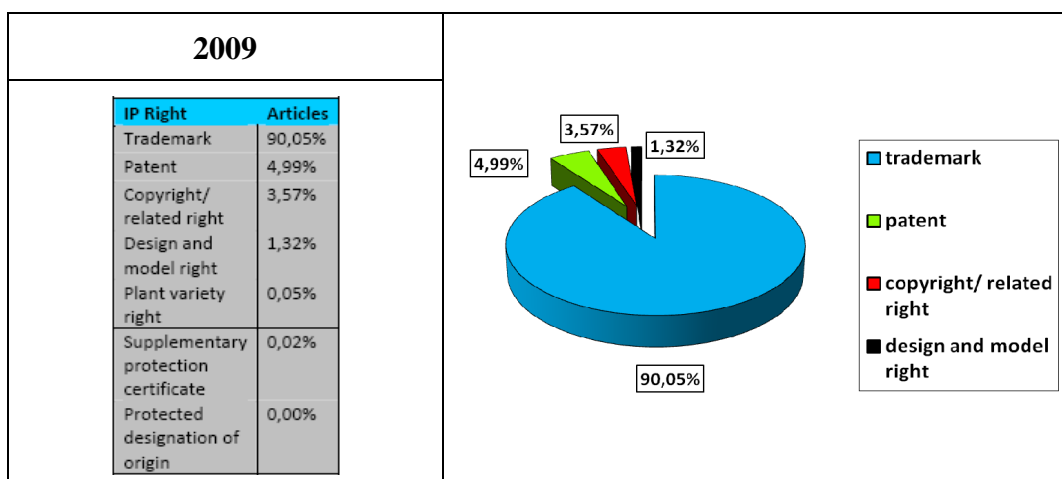


Table 2 - Overview of involved rights in interceptions by customs in 2009

Source: EU Commission Report on EU Customs Enforcement of Intellectual Property Rights (Results at the EU Border 2009)

The concerns expressed by certain stakeholders regarding the broad scope of IPR covered by the current Regulation need to be taken into account. However, any reduction of the scope needs to be seen in the light of existing obligations deriving from international agreements. The TRIPS Agreement obliges WTO Members to provide for border measures only with regards to counterfeit trademarks and pirated copyright goods and only at the time of importation. However, other international agreements¹⁹ do impose a wider scope of border measures, similar to the current Regulation. Subject to ratification, ACTA²⁰ will also provide additional elements covered by TRIPS, notably with regard to import and export shipments, as well as for effective border enforcement of a broader range of IPR.

Nevertheless this document implicitly takes into consideration these concerns by dealing with certain aspects of the administrative procedures that could be interpreted in a manner leading to an unbalanced approach towards interested parties (procedural rights, liability of customs and scope of the simplified procedure). In addition, some options for addressing the problems identified, propose the use of non-legislative

¹⁹ (i) Economic Partnership Agreement with the CARIFORUM States (Council Decision of 15 July 2008, OJ L 289/I/4 of 30.10.2008), Article 163 on border measures refers to goods infringing an intellectual property right: (a) 'counterfeit goods', (b) 'pirated goods', (c) goods which infringe a design or a geographical indication. The EC Party and the Signatory CARIFORUM States agree to collaborate to expand the scope of this definition to cover goods infringing all intellectual property rights.

(ii) EU-Korea FTA, provisionally signed on 6 October 2010. Article 10.67 on border measures refers to goods infringing an intellectual property right: (a) counterfeit goods, (b) pirated copyright goods, or (c) goods which infringe: (i) a patent; (ii) a plant variety right; (iii) a registered design; or (iv) a geographical indication.

²⁰ Final text of ACTA is available at:
http://trade.ec.europa.eu/doclib/docs/2010/december/tradoc_147079.pdf

instruments such as training of customs officers, issuing of guidelines and regular contacts with all stakeholders.

The Regulation does not cover, or expressly excludes from its scope, certain infringements, in particular goods involving an infringement of trade mark rights other than counterfeit trademarks (identical signs for identical type of goods), such as those related to likelihood of confusion (similar sign/similar goods) and well-known trade marks (identical or similar sign and different type of goods); devices to circumvent technological measures designed to prevent or restrict acts which are not authorised by the right-holder (Example: electronic chips that can be fitted into a console so the modified console can be made to play unauthorised copies); goods involving an infringement of design rights other than pirated design right goods; goods involving an infringement of the rights of the creator of the topographies of a semiconductor product (design for electronic function of elements and interconnections of an incorporated circuit in a chip); goods involving an infringement of utility model rights (exclusive protection for an invention with industrial application where the level of inventiveness required is generally lower than that for patents); goods involving an infringement of trade names presented as exclusive property rights in the national law of some Member States; and goods involving infringement of trade secrets (products containing or manufactured using a third parties' undisclosed information, without consent).

The Regulation also excludes from its scope:

- parallel trade;
- goods which have been manufactured or protected by an IPR under conditions other than those agreed with the right-holder;
- non-commercial goods in passengers' baggage within the limits of the duty-free allowance.

The existence and scale of these infringements are difficult to illustrate, and therefore the magnitude of damage to right-holders. There is consensus across the board that there is a lack of credible data in this field. This was underlined in a report²¹ prepared by the United States Government Accountability Office (GAO) in April 2010. The following extract²² expressly refers to the lack of data being a main obstacle to measuring the economic impact of counterfeiting and piracy:

“Quantifying the economic impact of counterfeit and pirated goods on the U.S. economy is challenging primarily because of the lack of available data on the extent and value of counterfeit trade. Counterfeiting and piracy are illicit activities, which makes data on them inherently difficult to obtain. In discussing their own effort to develop a global estimate on the scale of counterfeit trade, OECD officials told us that obtaining reliable data is the most important and difficult part of any attempt to quantify the economic impact of counterfeiting and piracy. OECD’s 2008 report, The

²¹ United States Government Accountability Office – Report to Congressional Committees 'Intellectual Property Observations on efforts to quantify the economic effects of counterfeit and pirated goods' April 2010; GAO-10-423 on <http://www.gao.gov/new.items/d10423.pdf>

²² GAO report, Page 16; opening paragraph of section 'Lack of data is the primary challenge for quantifying economic impacts of counterfeiting and piracy'.

Economic Impact of Counterfeiting and Piracy, further states that available information on the scope and magnitude of counterfeiting and piracy provides only a crude indication of how widespread they may be, and that neither governments nor industry were able to provide solid assessments of their respective situations. The report stated that one of the key problems is that data have not been systematically collected or evaluated and, in many cases, assessments “rely excessively on fragmentary and anecdotal information; where data are lacking, unsubstantiated opinions are often treated as facts”.

Concerns have also been raised in international organisations, such as WIPO, the World Intellectual Property Organisation, that the public debate should not be contaminated by inaccurate and possibly misleading data. At least one member of WIPO has requested that a new and reliable methodology to assess counterfeiting policy be developed.

The main source of information is the Annual report²³ on EU customs enforcement of IPR. The data is provided by EU Member States which forward details of all cases based upon the application of the Regulation, to the Commission on a quarterly basis, in accordance with Article 8 of Commission Regulation (EC) 1891/2004, the implementing regulation for the IPR border enforcement Regulation. These reports provide credible evidence of the work carried out by customs, as well as a useful indicator of the extent of the scale of the trade in IPR infringing goods.

There are two reasons for the lack of data. Firstly, it is very difficult to obtain information on illicit activities. Secondly, the main source to measure external trade in IPR infringing goods usually comes from the statistics of customs interceptions; since the EU customs are not currently competent to intercept goods infringing IPR not covered by the Regulation, this source is not available. There could be alternative methods based on different assumptions, but they would not be reliable and they should be developed for each IPR infringement and sector of products.

With regards to **trademark rights infringements** other than counterfeit goods, 11 submissions to the public consultation suggested broadening the concept of trademark infringement used in the Regulation. According to the right-holders, well known brands are abused for other classes (type of goods) than those registered, such as trade mark signs for beverages that are used for lighters, to confuse the consumer and take unfair profit from the reputation of the well known brand.

Four submissions to the public consultation suggested including **devices to circumvent technological measures** designed to prevent or restrict acts, which are not authorised by the right-holder²⁴. One contribution explained: “*the videogame industry suffers particular damage due to the widespread availability of illegal*

²³ The reports on statistics can be found at http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics/index_en.htm

²⁴ See Article 7(1)(c) of Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (OJ L111, 5.5.2009, p16) and Article 6(2) of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (OJ L167, 22.6.2001, p.10).

circumvention devices... the definition of “goods infringing an intellectual property right” in the Regulation should be extended to expressly include illegal circumvention devices, products or components that are designed, produced or adapted to enable or facilitate the circumvention of technological measures”. Another contribution said: “Video game and film producers, inter alia, are facing major difficulties in hindering the circulation of such goods (including, in particular, so-called “game copier devices” and “modchips”) throughout the EU”.

Four submissions to the public consultation expressly mentioned the need to properly enforce **design rights infringements other than pirated goods** (mainly those designs that, without being strictly copies of the protected design right, "does not produce on the informed user a different overall impression"²⁵). One contribution from a textile association said: *“Although the counterfeiting of trade-marks is the infringement the public at large is most familiar with, our textile and clothing industry is also harmed, and perhaps more deeply, by the copying of its designs. This intangible asset is a major trump card for European companies, especially SMEs-SMIs, as it determines to a wide extent the commercial success or failure of a product. Today, we reckon that some 10,000,000 textile designs are created by our companies per year. So far as our sector is concerned, counterfeiting already takes place before the manufacturing and marketing stages of the original design. Indeed, the samples or sketches which are shown either at international fairs or to commission producers or potential customers are immediately reproduced by experienced designers and manufactured even before the original product is manufactured by the owner of the design”.*

Another contribution stated: *“some counterfeit goods are shipped without being marked in their country of manufacture with the third party trade mark under which they would ultimately be disposed of in the country of destination, and that such marking is carried out in the country of destination or an intermediate country. Such behaviour makes seizure by Customs by reference to trade marks, which would otherwise be one of the most straightforward means of identification of counterfeits, difficult if not impossible. Rights holders therefore need to rely on other IPRs such as designs, and may indeed also need to rely on patents”.*

With regard to infringements of the **rights of the creator of the topographies of a semiconductor product**, although the main problem stems from counterfeiting trade marks, right-holders explain that they have experienced the unauthorised reproduction of chip designs.²⁶

As it can be read in the website of the European Space Agency²⁷, *“the topography of an integrated circuit is the result of a huge investment in terms of both finance and know-how. This is also a field in which there is constant need for improvement, such*

²⁵ See art. 10 of Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs *OJ L 3, 5.1.2002, p. 1–24*

²⁶ See the comments from the Semiconductor Industry Association (SIA) in response to the request from the United States Intellectual Property Enforcement Coordinator for Public Comments on the 2010 US IP Enforcement Joint Strategic Plan in http://www.whitehouse.gov/sites/default/files/omb/IPEC/frn_comments/SemiconductorIndustryAssociation.pdf

²⁷ http://www.esa.int/esaMI/Intellectual_Property_Rights/SEM5JPL26WD_0.html

as reducing the dimensions of integrated circuits. For these reasons, government offices reward these creations of the mind by granting monopoly right of exploitation to the creator. Topographies of semiconductor products also have considerable commercial value as they can be utilised in a wide range of products. A copy of the design could be done easily by photographing the layers of the integrated circuit”.

Six contributions to the public consultation suggested including infringements of **utility model rights**, within the scope of the Regulation. At present, legal protection for inventions by means of utility models is available only at national level. Most EU Member States offer, under various names, utility-model protection. However, their legal systems vary widely. As the WIPO website indicates, “*utility models are considered particularly suited for SMEs that make "minor" improvements to, and adaptations of, existing products. Utility models are primarily used for mechanical innovations*”²⁸.

One contribution asked to include infringements of **trade names** within the scope of the Regulation, where these are presented as exclusive property rights in the national law concerned.

Two contributions suggested including **trade secrets** (products containing or manufactured using a third parties' undisclosed information, without consent), within the scope of the Regulation.

With regard to **illicit parallel trade**, 44 contributions to the public consultation suggested that the derogation in the Regulation be deleted; 5 suggested that the derogation be amended to allow customs authorities to disclose information and 11 suggested that the derogation be maintained. 5 contributions addressed exclusively or principally, the issue of parallel trade; 3 were in favour of withdrawing the derogation and 2 in favour of maintaining the *status quo*.

The European Court of Justice ruled in the Silhouette Case (C-355/96): “*National rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with its consent are contrary to Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992*”.

There is no credible information on the level of illicit parallel trade. In 1999, a study prepared by NERA at the request of the Commission, was published which examined the economic consequences of the different exhaustion regimes for trade marks²⁹, but it was comparing the economic consequences of the choice of a regime of exhaustion in the area of trademarks assuming that intellectual property was respected. Another report in 1999, “Parallel Imports - Effects of the Silhouette Ruling”³⁰, by the Swedish Competition Authority, investigated and analysed how the Swedish market and Swedish consumers and producers would be affected by the interpretation of the

²⁸ http://www.wipo.int/sme/en/ip_business/utility_models/utility_models.htm

²⁹ The report can be found in http://ec.europa.eu/internal_market/indprop/tm/index_en.htm#docs

³⁰ The report can be found i http://www.konkurrensverket.se/upload/Filer/ENG/Publications/rap_1991-1_eng.pdf

Court in the Silhouette Case, which contrasted with Swedish legal practice. However, the report was based upon the assumption that IPR law was respected.

Situations do arise under the current legislation, where the customs authorities detain a particular shipment suspected of containing counterfeiting goods, and subsequently are informed that the shipment relates to an illicit parallel importation of “genuine” goods. In such cases, the right-holder may not use the information provided by customs to pursue such illicit operations and customs authorities must release the goods. An example of this can be found in the facts giving rise to the proceedings studied in the Opinion of the Advocate General Ruiz-Jarabo Colomer in case C 132/07³¹ (the case was finally removed from the Register of the Court after the parties to the main proceedings resolved the matter amicably).

34 contributions suggested the current derogation concerning **overruns** be deleted, while 8 indicated it should be retained. As one contribution stated, *“there is no justification for treating them differently from goods that have not been licensed at all. In most cases, overruns pose health and safety risks to the consumers since such goods escape from the quality control mechanisms, which the right holders have established for their licensed goods. The lack of quality controls creates the risk that the licensee, which breached a license contracts and produces overruns, which are of a lesser quality and/or of a different composition than the licensed goods, which are subject to quality controls. It is obvious that the interests of the intellectual property rights holder can be seriously affected by overruns, especially if they do not meet the quality requirements of licensed goods, thereby damaging the reputation of the right holder”*.

Goods contained in travelers’ personal baggage, of non-commercial nature and which fall within the limits of the duty-free allowance are excluded from the scope of the Regulation. As the EU report on EU customs enforcement of IPR indicated, the ratio between the number of cases of goods suspected of infringing an IP right found in commercial and passenger traffic is about 84% to 16 %, while as far as the amount of articles detained is concerned, the ratio is about 99% commercial to 1% passenger traffic. Passengers in general will not carry the same amount of goods as are transported in commercial traffic.

Overall, the policy objectives of substantive IPR rules, namely protecting the intellectual property right of a right-holder, are not fully met.

³¹ The Opinion is available in <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&alljur=alljur&jurcdj=jurcdj&jurtpi=jurtpi&jurtfp=jurtfp&numaff=C-132/07&nomusuel=&docnodecision=docnodecision&allcommjo=allcommjo&affint=affint&affclose=affclose&alldocrec=alldocrec&docor=docor&docav=docav&docsom=docsom&docinf=docinf&alldocnorec=alldocnorec&docnoor=docnoor&docppoag=docppoag&radtypeord=on&newform=newform&docj=docj&docop=docop&docnoj=docnoj&typeord=ALL&domaine=&mots=&resmax=100&Submit=Rechercher>

3.1.2.2. *Problem II: Administrative procedures to enforce IPR are burdensome to customs and right-holders*

Lack of implementation of the simplified procedure in some Member States

The so-called simplified procedure provides for goods to be destroyed in certain circumstances, with the agreement of the right-holder and the owner of the goods and without there being a need to establish the IPR infringement through lengthy and costly legal proceedings. The simplified procedure has proved to be a very useful tool. However, the implementation of the simplified procedure is not mandatory and certain Member States do not provide for it (Bulgaria, France, Italy, Luxembourg and Finland). Some of these are still in the process of introducing national provisions for the implementation of the simplified procedure, whilst others had more substantial problems blocking its introduction. In particular, there were concerns with the compatibility of the simplified procedure with rules governing the fundamental right of property, as well as the fact that criminal procedures applied in some cases, when the right-holder acknowledged a possible infringement of his rights.

Interesting albeit anecdotal evidence concerning the costs involved in pursuing suspected IPR infringements is available from a variety of sources, as shown below. One of the principle aims of the recently established European Observatory on Counterfeit and Piracy is to improve the collection of relevant statistical information, though for now, no substantial credible data is available.

A study called “Damages in Intellectual Property Rights”, prepared by the legal subgroup of the European Observatory on Counterfeiting and Piracy³², underlined the costly nature of infringement proceedings. Right-holders usually have to invest substantial sums to detect an infringement, identify the infringer, investigate and gather evidence of infringement, secure seizure, store and eventually destroy infringing goods. Even small cases could cost over 10,000 € to the right-holder.

Examples of costs related to court proceedings in Germany were provided by Prof. Bornkamm in a document prepared for the World Intellectual Property Organisation (WIPO), entitled “Intellectual Property Litigation under the Civil Law Legal System; experience in Germany”³³, “*the first is a case in which 10.000 € are at stake. The court of first instance hears evidence. The judgment is not appealed against. In this case court costs will amount to c.650 €. Costs for counsel on each side will be about 1.750 €, amounting to total costs of 4.150 €. The second example is a case in which an amount of 100.000 € is in dispute. The second example is a case in which an amount of 100.000 € is in dispute. Again the court of first instance hears evidence, but this time there is an appeal. The Court of Appeal hears and decides the case relying on the evidence heard at first instance. This time court fees for two instances will be about 6.500 €, and the lawyers on each side will charge c.10.300 € bringing the total costs up to 27.200 €. The value of the third case is 1.000.000 €. This time no evidence is heard but the case goes up all the way to and is decided by the Federal Supreme*

³² The study can be found in http://ec.europa.eu/internal_market/iprenforcement/docs/damages_en.pdf

³³ The document can be found in http://www.wipo.int/edocs/mdocs/enforcement/en/wipo_ace_2/wipo_ace_2_3.pdf

Court. This time court fees amount to c.56.000 €, and the costs for the lawyers on each side will amount to c.42.000 € bringing total costs up to 140.000 €”.

Another example was provided in the Public Consultation. “In Belgium, in case the detention is followed up by a civil procedure the storage and destruction costs have to be advanced by the right-holder and can be claimed back from the infringer. As civil proceedings tend to last for at least one year the costs can pile up. At Antwerp, where entire containers are seized, the storage costs can amount to 500 or even 1.000 € a month. For instance, in December 2009, an amount of 3.850 € has been claimed for the storage and destruction of 2600 infringing trolleys. In March 2010, an amount of 4.750 € was requested for 11.300 kg”.

Sales of IPR infringing goods via the internet

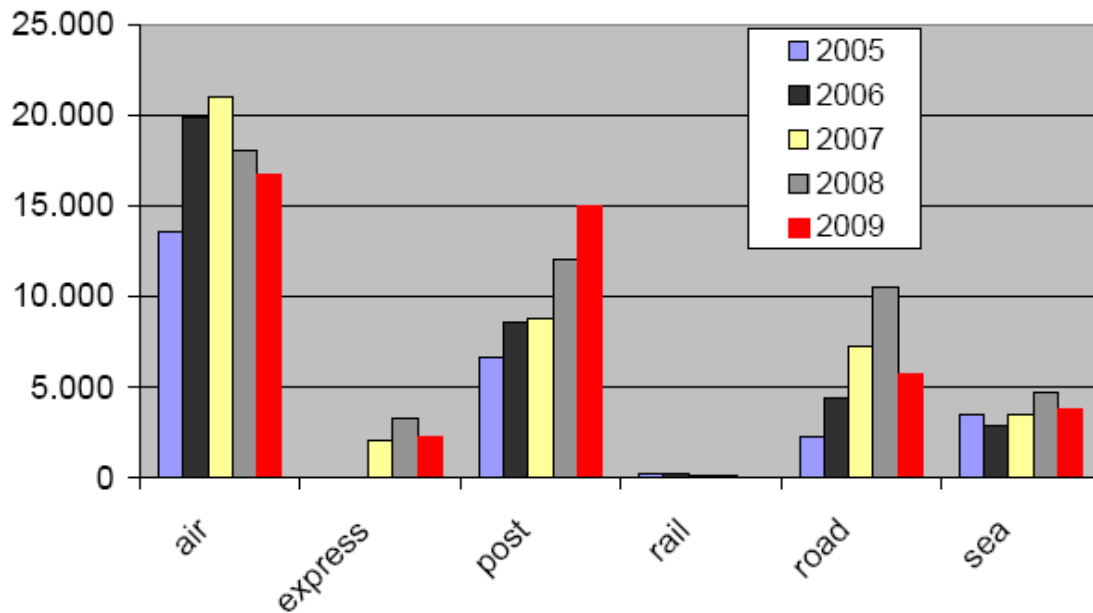
The spectacular rise in online shopping is a recognized phenomenon, which offers new opportunities to consumers in terms of choice and prices, and to companies in terms of market development. Unfortunately, there has been a corresponding rise in the number of cases and quantities of IPR infringing goods identified by customs in small consignments containing goods sold via the internet.

Right-holders perceive an increasing trend towards small consignments of counterfeit or pirated goods, entering the EU through the postal service or via a commercial courier company³⁴. Counterfeiters are now able to send high volumes of parcels, without these items being detected or detained by the customs authorities. This trend is the new supply/traffic channel of choice for counterfeiters and is particularly linked to internet sales.

The 2009 Report on EU Customs Enforcement of IPR shows that there were 17,311 cases of detention of goods (39 % of the total amount of cases) covering only 2,521,976 articles (2 % of the total amount of articles). The trend in the last years indicates that the number of cases of detention of shipments sent by post is growing (see Graph 1 and Table 3 below).

³⁴ The report "Evaluation de l'ampleur de la vente des produits contrefaisants sur Internet" (page 89) states: « Au total, nous pouvons évaluer l'ampleur annuelle de la contrefaçon sur internet en 2006, transitant par la France, à près de 975 000 articles, soit une valeur excédant 83 millions d'euros » ("Evaluation de l'ampleur de la vente des produits contrefaisants sur Internet" *Rapport rédigé sous la direction de Eric SCHMIDT*, Directeur du département Affaires publiques. Compagnie Européenne d'Intelligence Stratégique. Etude commandée par la Direction générale de la Compétitivité, de l'Industrie et des Services. Ministère de l'économie, de l'industrie et de l'emploi de la République Française. The report can be found in http://www.industrie.gouv.fr/enjeux/etude_contref_0209.pdf

Registered cases by means of transport



Graph 1 - Number of cases by means of transport intercepted by customs (2005-2009)

Source: EU Commission Report on EU Customs Enforcement of Intellectual Property Rights (Results at the EU Border 2009)

Cases	2005	%	2006	%	2007	%	2008	%	2009	%
air	13.541	50,71	19.830	53,12	21.041	48,18	18.072	36,60	16.698	38,32
express					2.058	4,71	3.279	6,64	2.308	5,30
post	6.679	25,01	8.613	23,07	8.733	20,00	12.068	24,44	15.003	34,43
rail	222	0,83	190	0,51	136	0,31	102	0,21	57	0,13
road	2.286	8,56	4.400	11,79	7.265	16,64	10.541	21,35	5.714	13,11
sea	3.467	12,98	2.858	7,66	3.483	7,97	4.655	9,43	3.793	8,70
unknown	509	1,91	1.443	3,87	955	2,19	665	1,35	-	-

Table 3 - Number of cases by means of transport intercepted by customs (2005-2009)

Source: EU Commission Report on EU Customs Enforcement of Intellectual Property Rights (Results at the EU Border 2009)

Current procedures involving the implication of the right-holder and the recipient are burdensome. The application of the standard, as well as the simplified procedure, is disproportionate as far as small consignments are concerned. Much of the small shipments, containing suspected IPR infringing goods, are sent by post or courier and

relate to goods being ordered or sold via the internet. These parcels normally contain only a small amount of goods often infringing the rights of several IPR holders (for instance, several T-shirts of different football teams, or several watches bearing different trademarks). The burden for customs to notify each right-holder and for all right-holders to inspect the goods and try to notify the consignee of the parcels in an effort to reach an agreement to destroy the goods is not practical or realistic. As stated before, amounts spent to pursue even the smallest infringers may often run to well over 10,000 Euros. The effect is that the right-holders often do not react to notifications because of the disproportionate and uneconomical burden of cost of storage and judicial procedures, in relation to the amount and value of the infringing goods.

Where the procedures to enforce IPR by customs are disproportionate with regard to the value and amount of alleged infringing goods, both customs and right-holders are discouraged from taking action, thus undermining the effectiveness of the system currently designed in the Regulation.

3.1.2.3. Problem III: Certain aspects of the administrative procedures could be interpreted in a manner leading to an unbalanced approach towards different legitimate stakeholders

Situations in which customs are competent to act might be affecting the smooth transit of medicines across the EU territory towards third countries

The Regulation empowers customs to detain goods suspected of IPR infringements, wherever customs are competent to carry out controls for the performance of their duties. After certain instances of detentions of generic medicines from India in transit through the EU in late 2008, the provisions that determined the scope of customs authority to act has been the basis for concerns that customs could act in a manner that was not compatible with the EU's international obligations in the context of the WTO. These concerns ultimately led to requests by India and Brazil for consultations with the EU, in the framework of the procedures governing the Settlement of Disputes at the World Trade Organisation (WT/DS408³⁵ and WT/DS409³⁶). With a view to an amicable solution of the dispute, the Commission services have explored the possibilities of clarifying the provisions of the Regulation in order to allow for a safe passage of genuine generic medicines through the EU.

Right to be heard

The right of concerned parties to be heard before the decision on the detention of goods is taken is not presently codified in the Regulation. The principle of the right to be heard would be applied on the basis of the ruling given by the European Court of Justice in Case C-349/07 (Sopropé)³⁷. Considering the specific procedures foreseen in the context of IPR enforcement, including time constraints, it is important to establish a practical and harmonised practice for implementing the right to be heard before customs authorities take decisions in this field.

³⁵ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds408_e.htm

³⁶ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds409_e.htm

³⁷ See in particular points 33 and 36 to 38 of the ruling.

The principle of right of defence is a well-established legal principle under EU law, which has also been recognised in Article 41 of the Charter of Fundamental Rights of the European Union, dealing with the Right to good administration. This provision establishes that every person has the right to have his or her affairs handled impartially, fairly and within a reasonable time by the institutions, bodies, offices and agencies of the Union and this right includes, amongst others, the right of every person to be heard, before any individual measure, which would affect him or her adversely, is taken.

Liability of customs

Another fundamental legal principle under EU law, which is already well-established in the jurisprudence of the Court of Justice of the EU as well as national courts, is the principle of state responsibility. Its importance has been reaffirmed through the Charter of Fundamental Rights of the European Union, which provides in Article 41 that every person has the right to have the Union make good any damage caused by its institutions or by its servants in the performance of their duties, in accordance with the general principles common to the laws of the Member States. An obligation to provide for liability of public authorities, when they act to enforce IPR at the border on their own initiative, except in situations when they acted in good faith also stems from Article 58 of the TRIPS Agreement.

These principles, while already binding on the EU and its Member States, are not clearly reflected in the current IPR Regulation. Their express codification would therefore be in the interest of greater legal certainty and predictability.

The wording of the provision of Article 19(2) of the Regulation³⁸ may be questioned in the light of national law in the EU Member States, with regard to the non-contractual liability of a public administration concerning any damage caused by it in the performance of its duties. This principle, of course, is not foreign to the EU law and is reflected in Article 41 of the Charter of Fundamental Rights of the European Union and Article 340³⁹, second paragraph, of the Treaty on the Functioning of the European Union, but in that context relates to damages caused by the institutions of the EU.

Simplified procedure: procedure and scope

Article 11 of the Regulation provides for an expeditious procedure for anticipated destruction of the alleged IPR infringing goods detained by customs, where there is an agreement between the right-holder and the declarant, the holder or the owner of the

³⁸ Article 19(2) of the Regulation: “*The exercise by a customs office or by another duly empowered authority of the powers conferred on them in order to fight against goods infringing an intellectual property right shall not render them liable towards the persons involved in the situations referred to in Article 1(1) or the persons affected by the measures provided for in Article 4 for damages suffered by them as a result of the authority's intervention, except where provided for by the law of the Member State in which the application is made or, in the case of an application under Article 5(4), by the law of the Member State in which loss or damage is incurred*”.

³⁹ Article 340 (ex Article 288 TEC) of the Treaty on the Functioning of the European Union (...)

In the case of non-contractual liability, the Union shall, in accordance with the general principles common to the laws of the Member States, make good any damage caused by its institutions or by its servants in the performance of their duties.

goods to abandon the goods for destruction. Such agreement can be explicit or presumed— where the concerned parties do not oppose to destruction after receiving the offer from the right holder. Where there is no agreement or it cannot be presumed, within ten days of receipt of notification of detention of goods, the right holder must initiate the appropriate legal proceedings to determine whether an IPR has been infringed or goods shall be released by customs. Implementation of this simplified procedure is optional for the Member States.

The problems identified with respect to the simplified procedure relate for the most part to the presumption of agreement: “The agreement for destruction shall be presumed to be accepted when the declarant, the holder or the owner of the goods has not specifically opposed destruction within the prescribed period”.

Firstly, the rules stipulating which of the parties (the declarant, the holder, the owner of the goods) should be notified are not sufficiently clear. As a result this can be cause for uncertainty for customs authorities, right-holders and other concerned parties, with regard to the requirements of the procedure.

Secondly, at present, the notification of the proposal of destruction must be done by the right-holders, who subsequently have to prove to customs authorities (i) that they effectively notified the concerned parties and (ii) that the party notified either agreed or – where presumed agreement is sufficient - did not respond to the request from the right holder. The first requirement may be difficult to meet when the concerned party resides in a third country. This requirement also implies a case by case assessment on whether the concerned party was formally and effectively notified or not. The second requirement can be even more difficult to meet, as it requires the right holder to show that he did not receive any reply from the concerned parties. Furthermore, the Regulation does not establish the minimum content of the notification or its form.

Thirdly, the time limits for notifications from the right holder to the concerned parties and for the reply from the concerned parties are not sufficiently defined in the provisions dealing with the simplified procedure. According to article 11 of the Regulation, the concerned parties have to oppose “within the prescribed period”. The “prescribed” period is 10 working days, or three working days in the case of perishable goods, of receipt by the right holder of the notification of detention of goods by customs.

Fourthly, the decision of destruction relies on the initial “suspicion” of IPR infringement by customs authorities that led to the detention on goods, on the lack of reaction from other concerned parties and on the written information from the right holder that “goods concerned by the procedure infringe an intellectual property right”.

In accordance with the Court of Justice jurisprudence on the right to defence, where destruction of goods is based on a presumed agreement, particular attention should be paid to providing sufficient and clear notice to the parties, which rights could be negatively affected, to allow them to make their views effectively known as regards the information on which the authorities intend to base their decision. The latter is a general principle of EU law, which applies where the authorities are minded to adopt a measure, which will adversely affect an individual.

3.2. Who is affected by the identified problems?

The identified problems affect:

- Right-holders, as the proprietors and authorised users of the intellectual property rights and the ones requesting action from customs authorities;
- Carriers and enterprises which offer logistics, freight forwarding and customs services, since the activity of customs on IPR enforcement affects directly their core business;
- Owners and holders of goods internationally traded being the importer, exporter, or consumers of goods and;
- Customs authorities, as the enforcement authority designated under the Regulation.

3.3. How would the problem evolve, all things being equal?

The baseline scenario assumes that the existing Regulation is not modified. The existing legislation does not satisfactorily address the problems or concerns described above. Those problems and concerns, which derive from particular features of the regulatory framework, will persist if the regulatory framework is not modified.

Furthermore, the growing trends of trade in IPR-infringing goods identified in the customs statistics would suggest that the consequences of any weaknesses identified in the current system will also gradually increase in a corresponding manner.

3.4. Right of the EU to act

The European Union has exclusive competence in the area of common commercial policy, as provided for in paragraph (1) of Article 3 of the Treaty on the Functioning of the European Union (TFEU). Article 207⁴⁰ of the TFEU defines common commercial policy and the commercial aspects of intellectual property are expressly included within this definition.

The Regulation concerns the commercial aspects of intellectual property rights in that it deals with measures enabling customs to enforce IPR at the border on goods that are internationally traded. It therefore follows that there is no issue of subsidiarity to be taken into account in this assessment.

⁴⁰ Article 207 (ex Article 133 TEC) of the Treaty on the Functioning of the European Union; *1. The common commercial policy shall be based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies. The common commercial policy shall be conducted in the context of the principles and objectives of the Union's external action.*

4. OBJECTIVES

The general objective is to ensure that customs measures and procedures concerning border enforcement of IPR are effective and consistent with all relevant legal obligations.

The policy shall in particular pursue the following specific objectives:

- (i) improve IPR enforcement at the border. It is essential that all intellectual property rights can be enforced in an efficient and uniform manner throughout the territory of the Union;
- (ii) limit administrative and economic burdens on customs and right-holders. To make enforcement procedures effective and readily available to all enterprises and especially small and medium-sized enterprises, it is of utmost importance that the procedure for enforcement represents the minimum difficulty to applicants, thereby avoiding unnecessary lengthy procedures.
- (iii) clarify and revisit any provision which may be perceived as imbalances in administrative procedures. All enforcement procedures under the Regulation have to be compatible with the basic principles of EU law and the EU's international obligations.

5. POLICY OPTIONS

5.1. General overview

In considering the different policy options, the baseline scenario is outlined as option A to map out how the situation could be expected to develop if no remedial action was taken. For each problem identified during the course of the review, if appropriate, consideration is also given to resolving the issue through non-legislative means, option B, or through legislative measures, option C.

However, it is not the intention of this assessment to compare the likely merits of options A, B or C, with a view to deciding solely to maintain the baseline scenario, or to introduce non-legislative instruments, or to make a legislative proposal. The aim is to consider the appropriate mix for each specific problem and section 6 of the assessment has therefore been structured around the problems themselves.

5.2. Policy option A – Baseline scenario

The following sections will consider the baseline scenario against all three problems, as well as against the more detailed points within each problem. However, in general terms, on the basis that no proposal was made to amend the provisions of the Regulation and no other measures were taken, the following development of the baseline scenario could be expected:

- the existing rights enforced by customs at the border would continue to be enforced and some IPR infringements would remain outside the scope of competence of customs authorities;

- the current procedures would continue to apply without any possible streamlining, particularly with regard to simplified procedures for destruction and for small consignments;
- no measure would be adopted to address any possible lack of clarity with regard to certain provisions of the Regulation.

5.3. Policy option B – Use of non-legislative instruments

With the implementation of the new customs Action Plan 2009-2012, non-legislative instruments are already being used to a certain extent, to improve the effectiveness of the border measures. The Action Plan includes sections on operational capacity, business and international cooperation, as well as on raising awareness and communication. The Commission will continue to encourage active implementation of the Action Plan, which was accepted by all Member States. It is supported by the Customs 2013 Programme, which can be used to finance certain activities; in the past this has included the elaboration of manuals for right-holders and guidelines for customs on the application of the procedures.

There are further areas where it may be appropriate to consider non-legislative instruments, such as guidance to customs authorities through explanatory notes or guidelines issued by the Commission. These non-legislative instruments could address the interpretation of the Regulation in the light of the WTO law and of the basic principles in the EU law. In addition, further practical cooperation could be envisaged between customs administrations in the Member States to maintain a uniform and effective application of the border measures throughout the EU.

However, problems such as the scope of the competence of customs authorities to enforce IPR could not be addressed by non-legislative instruments; therefore, there would be no change in the scope of the legislation and for example, the rights that customs were competent to enforce.

5.4. Policy option C – Amendment of the Regulation

Under this option, the existing legal framework would be modified. Different options could be available for each of the different identified problems, depending on the outcome of the assessment. Nevertheless, amendments to all or some of the following provisions could be envisaged:

- with regard to problem I (some IPR are not enforced by customs at the EU border), two sub-options could be taken into consideration to extend the scope of the Regulation.
 - i. The first sub-option would be to extend the scope of IPR infringements to cover all infringements of the types of IPR already included in the Regulation. Therefore, under this sub-option customs authorities would be competent to take action on goods involving any infringement of trade mark rights (and not only counterfeit goods), of design rights, copyrights and related rights (and not only pirated goods); this would imply also the deletion of the current derogations on parallel trade, overruns and travellers allowance.

- ii. The second sub-option would be to include in addition to the extension proposed in the first sub-option, goods infringing IPRs not already covered by the Regulation. This would cover goods involving an infringement of the rights of the creator of the topographies of a semiconductor product, of utility model rights; of trade names presented as exclusive property rights in the national law of some Member States; and of trade secrets.

- with regard to problem II (administrative procedures to enforce IPR are excessively burdensome), the introduction of a mandatory system for simplified destruction of IPR-infringing goods, subject to clarified conditions and adequate safeguards and the introduction of a specific simplified procedure for small consignments;

- with regard to problem III (rebalancing of certain aspects of the administrative procedures), the introduction of further clarity concerning goods that are merely transiting the EU and not destined for, nor pose a risk of being diverted onto, the EU internal market and the introduction of further clarity in the procedures, to increase legal certainty for all legitimate stakeholders.

Such amendments should not preclude additional support measures, such as training for customs and initiatives to develop further cooperation between customs and stakeholders, including in the area of internet sales.

6. ANALYSIS OF IMPACTS

6.1. Introduction

The absence of data on the volume of EU external trade in goods infringing IPR or of the situation on the internal market renders an assessment of the possible impact of any option difficult. In addition, it is not possible to determine to what extent customs authorities would identify and act upon these infringing goods, as the success of the measures does not solely depend on the decision to modify the legislation. In these circumstances, only a quality assessment is possible.

This document considers a number of technical problems identified in the review of the Regulation that are not necessarily closely interlinked. Therefore, policy options for each separate problem were drawn up and assessed.

6.2. Problem I: Some IPRs are not enforced by customs at the EU border

In order to assess the options for this problem, the following criteria have been considered:

- The level of IPR enforcement within the EU territory, to consider to what extent the possible options could contribute towards better enforcement.
- The cost of enforcing IPR (for right-holders and for enforcement bodies and courts). Where goods have been detained by customs at the border, one legal proceeding will need to be initiated, whereas several separate proceedings will be required for the same level of enforcement for goods found on the market, which have been disaggregated and delivered to retailers.

- Risk of hindering legitimate trade. The measures and procedures to enforce intellectual property rights should not themselves become barriers to legitimate trade.

A - Baseline option

The baseline scenario is that no action is taken. The range of IPR remains within the scope of the Regulation and accordingly, customs authorities would remain competent to take action with regards to goods involving the same intellectual property rights infringements as is currently the case. With this option the number of cases involving customs interventions is not expected to change significantly from the situation portrayed in the latest customs report⁴¹.

The lack of competence of customs with regards to trade in certain IPR infringing goods would mean that:

- The level of IPR enforcement in the EU territory would not be improved at all by maintaining the current scope of the Regulation in terms of IPR infringements covered.
- The cost of enforcing IPR with regards to these infringing goods would remain higher as enforcement could only be done on the market place on the disaggregated consignments.
- The risk of hampering legitimate trade by enforcing IPR at the border would not be increased.

The possible deterrent effect to traders in these infringing goods would be lost; where customs have no competence to take action, there is no need for traders to conceal the shipments at the border.

B – Non-legislative measures option

With regards to the range of IPR covered by the Regulation, non-legislative instruments could not introduce any change as to the scope of competence of customs. Accordingly, the possible impacts concerning the range of IPR covered by the Regulation would be the same as envisaged for the baseline scenario.

Nevertheless, the use of non-legislative instruments to support the extension of the scope of the Regulation to cover new IPR could be considered. These instruments could include training, guidelines and explanatory notes for customs authorities and updating of the manual for right-holders.

⁴¹ Details concerning the last 10 years are available at:
http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics/index_en.htm

C.1 - Legislative measure sub-option i: extension of the scope to cover goods involving all infringements of the IPR already covered

Concerning the criteria of assessment previously established:

The level of IPR enforcement in the EU territory would be slightly improved by extending the current scope of the Regulation in terms of IPR infringements covered. The main focus for customs control has been on counterfeit products; in 2009, 90% of the articles detained by customs allegedly infringing IPR were counterfeit products. This seems to indicate that customs authorities are mainly finding those IPR infringements, which are more visible and easier to identify. In principle, one would not expect that the simple amendment of the Regulation to include within its scope, goods involving more complex IPR infringements could lead to a radical shift in the type of customs interceptions.

Nevertheless, a relatively significant impact from the introduction of provisions enabling customs to act on confusingly similar trademarks and illicit parallel trade, in particular with regards to trademarks should not be discarded, even though it is not possible to measure the effect in advance. If the volume of trade in these IPR infringing goods was high and the level of effectiveness of customs authorities in targeting it was also high, there would be more enforcement at the border.

However, a deterrent effect on the trade in IPR infringing goods, resulting from an extension of the scope of competences of customs should not be discarded. Where customs are competent to take action concerning a particular IPR infringement, some traders will refrain from trading knowingly in illicit goods. The deterrence effect will not only depend on a modification of the Regulation, but also on the effectiveness of customs in enforcing these IPR.

The deletion of the current derogation in the Regulation concerning goods of a non-commercial nature carried by travellers within their personal baggage should not have significant consequences, as the definition of IP infringements does not usually cover acts done privately. The current statistics of customs detentions recorded at the external borders of the EU published by the Commission⁴² provide information only on “passenger’s traffic of goods of a commercial nature”.

There would be an impact in terms of costs for customs authorities, international trade service providers and right-holders. As the level of trade in these infringing goods is unknown, it is not possible to estimate the costs, though the cost of enforcing IPR at the border to an equivalent level in the internal market would be lower as the right-holder would need to initiate fewer legal proceedings, since the shipment of infringing goods would not have been disaggregated and delivered to retailers.

⁴² The statistics of customs detentions recorded at the external borders of the EU published by the EU Commission can be found at http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics/index_en.htm

The risk of hindering legitimate trade by enforcing IPR at the border would be increased. It might be difficult for customs authorities to assess some of the IPR infringements that could be added, thus introducing an added risk that decisions to detain goods might be unfounded. For example, the likelihood of confusion of a trade mark encompasses easy cases and very complex cases⁴³. Illicit parallel trade may also be difficult to identify. Furthermore, the fact that goods covered by an IPR are brought into the EU without the authorisation of the right-holder does not mean that the rights of the right-holder are not exhausted with regards to those goods, as they could have been previously put in the EEA market by, or with the consent of, the right-holder. To counteract this risk, training for customs authorities should also be given on any extension of the legislative scope.

C.2 - Legislative measure sub-option ii: extension of the scope to cover goods involving all infringements of the IPR already covered and to include IPR which are not currently covered by the Regulation

Sub-option C1 provided for the extension of the possible types of infringements to rights already covered by the current Regulation, for example, goods involving any infringement of trade mark rights, not just to counterfeit goods. Sub-option C2 includes completely sub-option C1, but furthermore provides a complimentary, additional element. As well as the additional infringements foreseen under option C1, the level of IPR enforcement in the EU territory could be improved by extending the current scope of the Regulation in terms of IPR covered. Modifying the Regulation to include within its scope, goods involving complex IPR infringements, such as topographies of semi-conductor products, would not necessarily lead to a radical shift in the type of customs interceptions. However, empowering customs to enforce these IPR could improve the level of IPR enforcement, even if this improvement would not have a tangible impact overall. Option C2 therefore covers the possible extension outlined in sub-option C1, as well as the inclusion of additional IPR.

The impact in terms of costs for customs authorities, international trade service providers and right-holders would not be expected to be significant, as the number of actions would not be expected to be high. However, given the lack of data on the level of related infringements, it would not be possible to estimate these costs.

The risk of hindering legitimate trade by enforcing IPR at the border would be increased. As in the previous sub-option, it might be difficult for customs authorities to assess some of the IPR infringements that could be added. To counteract this risk, training for customs authorities should also be given on any extension of the legislative scope.

⁴³ See ECJ Case C-361/04 P, paragraph 18: “the assessment of the likelihood of confusion depends on numerous elements and, in particular, on the recognition of the trade mark on the market, on the association which can be made with the used or registered sign and on the degree of similarity between the trade mark and the sign and between the goods or services identified. The likelihood of confusion must therefore be appreciated globally, taking into account all factors relevant to the circumstances of the case”.

Summary Table for Problem 1: Some IPRs currently not enforced

Options \ Criteria	Level of IPR enforcement	Cost of IPR enforcement	Risk of hampering legitimate trade
A – Baseline	0	0	0
B – Non legislative approach	0	0	0
C 1 – Legislation (i) Any infringement of IPR already covered.	0/+	0/+	0/-
C 2 – Legislation (ii) (C1+other IPR)	+	0/+	0/-

Magnitude of effectiveness: ++ strongly positive, + positive, 0 no effect, - negative, -- strongly negative

Social and Environmental impacts for the legislative measure option (applicable to sub-options C1 and C2)

The extension of the Regulation to cover goods involving IPR infringements other than those currently covered is not expected to have tangible social or environmental impacts, taking into account the limited expected increase in customs action.

Possible impact on consumers, such as price and availability of products, resulting from the deletion of the derogation concerning parallel trade should not be addressed in this document. The regime of exhaustion of IPR within EU and MS's legislation is not provided for in the Regulation on customs enforcement of IPR; the adoption of a particular regime of exhaustion of IPR is decided when the EU or MS's substantive legislation on each type IPR is adopted. On the particular issue of the impact of customs detaining parallel trade where it is illegal according to the appropriate substantive rules on IPR, an estimate is not possible; there is no available evidence of the extent of infringements relating to parallel trade, on how this trade might be affecting the markets and to what extent customs could intervene effectively.

It is not possible to measure realistically the potential benefits, such as job creation, in relation to the enforcement by customs of new IPR at the border. The scale of the economic impact if customs would enforce new rights such as well-known trademarks, circumvention devices or topographies of semiconductor product at the border is difficult to measure as there is no data about enforcement of these IPR in the internal market. As customs authorities did not enforce these rights in the past, there is also no historical data contained in the customs statistics.

The enforcement of new IPR at the border is not expected to have a significant environmental impact. Effective enforcement could lead to more interceptions by customs of infringing goods, leading to more destruction of such goods and therefore more waste production. However, the introduction of infringing goods onto the internal market, would not preclude the possibility of their seizure and destruction by other enforcement authorities.

Furthermore, any decision on the disposal of detained goods is normally taken in the proceedings leading to determine the infringement by national courts. Any destruction of goods in waste facilities in MS will have to follow national or EU waste

management policies and have to respect environmental standards in the EU. The same will apply for goods destroyed under the simplified procedure. Destruction in MS includes possibilities such as recycling or disposal of goods outside commercial channels.

Experiences gained from recycling have shown that especially recycled counterfeit goods often pose equal significant threats to the environment or health of consumers because of their “unknown” composition. It is for this reason that stakeholders are not keen on giving permission to recycle goods instead of destroying them or to give permission to donate goods to charity.

As stated previously, due to lack of reliable data, it is not possible to measure the economic impact of enforcing new IPR at the border and therefore the impact on the environment would be equally difficult to measure.

6.3. Problem II: Administrative procedures to enforce IPR are burdensome to customs and right-holders

6.3.1. Lack of implementation of the simplified procedure in some Member States

In order to assess the options for this problem, the following criteria have been considered:

- Harmonisation of administrative procedures: as the border enforcement of IPR falls within the area of common commercial policy, all measures should be uniformly administered throughout the EU territory.
- Administrative burden: the standard procedure to enforce IPR is burdensome for customs authorities and right-holders. Once goods have been detained, customs must notify, amongst others, the right-holders of their actions. If the right-holders consider that the goods in question infringe their rights, they must initiate legal proceedings quickly or the goods are released. Under the simplified procedure, upon express or presumed agreement from the parties concerned, the goods may be deemed to be abandoned for destruction under customs supervision without there being a need to establish the IPR infringement through lengthy and costly legal proceedings.
- Cost of detentions: under the standard procedure, the right-holder must initiate costly legal actions and the goods must be stored for long periods. Under the simplified procedure the goods may be destroyed swiftly, avoiding costs of storage and legal costs.

A - Baseline option

The baseline scenario is that no action is taken: therefore the administrative procedures will not change.

The simplified procedure is optional for the Member States. Until now it has been implemented in different ways by most EU Member States except in Bulgaria, France, Italy, Luxembourg and Finland. By not changing the current administrative procedures the situation will not change and the Member States that have not introduced the simplified procedure, will have no obligation to do so. This means that:

- Harmonisation: certain IPR enforcement measures would not be harmonised across the EU and the confusing situation for stakeholders confronted with different procedures within the EU would remain;
- The administrative burden of lengthy legal procedures will not change in those EU Member States where the simplified procedure has not been implemented.
- The costs of detentions –legal costs and costs of storage in the EU Member States, which have not implemented the simplified procedure will remain a burden.

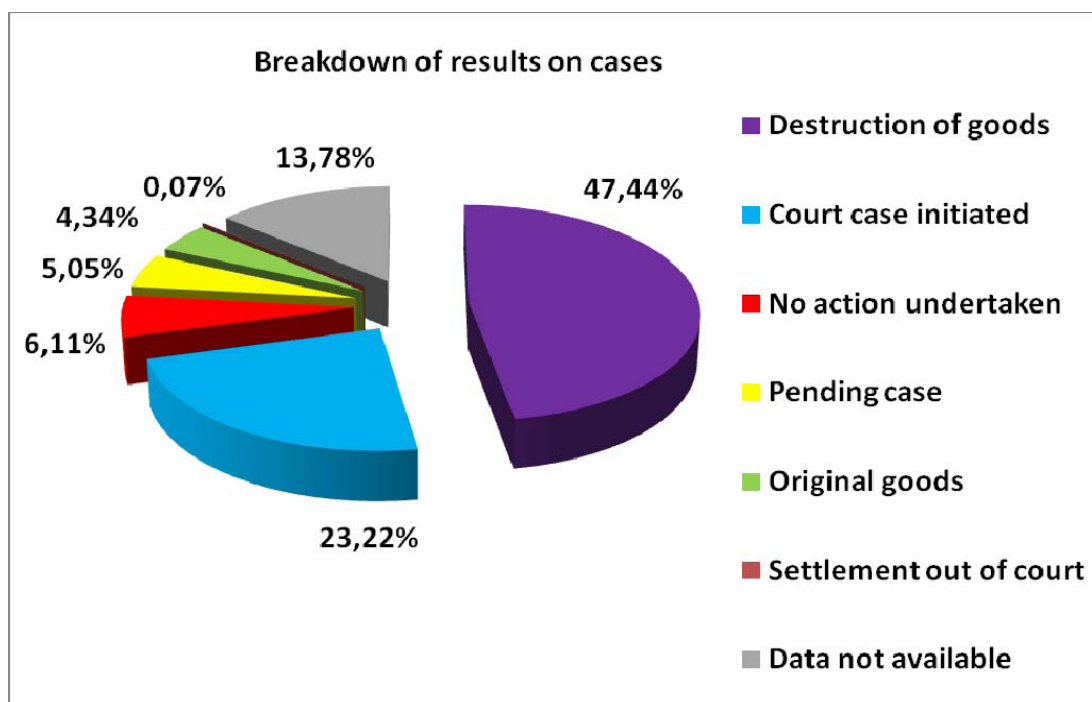
B - Legislative measure option

Introducing mandatory rules in the Regulation, providing for a simplified procedure:

- would harmonise the customs enforcement of IPR in the EU, and
- would reduce the administrative burdens of detentions relating to IPR enforcement, for all parties concerned, in the mentioned Member States.

Where the existence of an infringement is easily established and the concerned parties agree to the destruction of goods pursuant to the simplified procedure, or do not contest it in the case of presumed agreement, the cost of storing the goods for extensive periods of time could be avoided. Since in most cases judicial proceedings to determine the existence of an IPR infringement can take many years, the cost of storage can amount to very significant sums. In many cases, the residual value of the goods is lower than the cost to store them for years.

As some stakeholders stated in their submissions to the public consultation, the simplified procedure provides for a quick and cost effective destruction of infringing goods. It has been a successful tool in the practical management and handling of “uncontested cases” of IPR infringements. The fact that there have only been very few objections by importers to destructions in the framework of the simplified procedure, shows how many superfluous legal proceedings have been avoided since the introduction of the simplified procedure. The current figures in the EU demonstrate that the simplified procedure is already applied in almost half of all cases. In 2009, more than 47% of the cases were solved by destruction of the goods under the simplified procedure. (See graph 2)



Graph 2- Breakdown of results on customs interceptions by cases in 2009

Source: EU Commission Report on EU Customs Enforcement of Intellectual Property Rights (Results at the EU Border 2009)

However, in 23% of over 10 000 cases, a court procedure was initiated to determine the existence of an IPR infringement. Part of this figure includes proceedings in Member States that have not implemented the simplified procedure. If the simplified procedure were to become mandatory for all Member States, the amount of initiated court procedures should normally decrease as several of those cases could be handled and destroyed under the simplified procedure.

Therefore, by making the simplified procedure compulsory, the burdens and costs of enforcing IPR at the border, in relation to storage of detained goods under lengthy judicial procedures, would be reduced. A mandatory simplified procedure would require certain clarification to the existing procedure as the detailed implementation was until now, left to Member States. This would ensure a more uniform administration of the procedure by customs authorities across the EU and thereby increase legal certainty and predictability for operators.

A mandatory procedure, where both parties must be asked first to voluntarily abandon the suspected goods for destruction, would overcome the need for introducing national provisions for implementation, avoid the automatic application of criminal procedures and remain in line with the fundamental right of property.

Summary Table for Problem 2.1: Burdensome Administrative Procedures – where simplified procedure not implemented.

Criteria \ Options	Harmonisation of procedures	Administrative burden	Cost of detentions
A – Baseline	0	0	0
B – Legislation	++	++	++

Magnitude of effectiveness: ++ strongly positive, + positive, 0 no effect, - negative, -- strongly negative

6.3.2. Sales of IPR infringing goods on the internet

Options for this problem are assessed according to the following criteria:

- burden for customs.
- burden for right-holders.
- effectiveness to stop infringing goods sold via internet.

A-Baseline option

The baseline scenario is that no action is taken. The procedures to enforce IPR by Customs will remain disproportionate with regards to the value and amount of small consignments of goods sold via the internet and, therefore, the current procedures will remain burdensome for customs and for right holders, undermining the effectiveness of the system.

B - Non- legislative measures option

With regards to administrative procedures, non-legislative instruments could not introduce any change to the procedures as described in the Regulation. Accordingly, the possible impacts concerning administrative procedures covered by the Regulation would be the same as envisaged for the baseline scenario.

A number of non-legislative measures could be adopted to handle the phenomenon of trade in IPR infringing goods via the internet:

- the Member States could provide for a customs structure responsible for the fight against it, exploring the possibility of creating a national office dedicated to that purpose;
- the topic could be systematically integrated into all action plans concerning IPR enforcement;
- cooperation with other IPR enforcement authorities and developing partnerships with private stakeholders, notably right-holders, carriers, e-commerce operators and on-line payment providers could be fostered;

- rapid exchange of intelligence and operational information between customs authorities could be promoted, using to this end existing systems and establishing a network of national contact points;
- reinforcing customs controls at express freight and postal freight centres;
- developing investigations based upon suspect financial transactions related to the Internet, in order to dismantle criminal networks.

In addition, insofar this customs activity could affect the commercial activity of courier and post services providers, guidelines should be provided in order to:

- avoid impact on speed, processes and administration of the carriers;
- clarify the faculties and limits of customs to carry out physical examination of shipments where the postal secrecy obligations prohibit the carrier from opening shipments in some cases;
- ensure that the application of the procedure shall be proportionate, efficient and transparent.
- apply risk management for inspections in order to avoid undue disturbance of legitimate trade;
- define the obligation, as well as its limits, of carriers in stopping shipments or checking sender and addressee information;
- foster cooperation between carriers and customs.

However, as far as small consignments are concerned, the fruitful implementation of all these measures would not change the disproportionate application of the standard or the simplified procedure in the current Regulation.

C - Legislative measure option

Offering parties the possibility to abandon the goods in certain cases where the infringement appears to be clear, without the right-holders being involved, would reduce the burdens and costs for both right-holders and customs, significantly. The resources required by customs authorities and IPR owners to stop, detain, store, examine and destroy these goods may be disproportionate to the value of the goods for both customs authorities and IPR owners.

This measure should be accompanied by the non-legislative instruments described previously to tackle trade of IPR infringing goods via the internet.

Decreasing the administrative burdens on right-holders and customs would result in an increase of the effectiveness of the system with regards to small shipments sold via the internet.

Summary Table for Problem 2.2: Sales of infringing goods on the internet

Options \ Criteria	Burden for customs authorities	Burden for right-holders	Effectiveness
A – Baseline	0	0	0
B – Non legislative approach	0	0	0
C – Legislation	+	++	++

Magnitude of effectiveness: ++ strongly positive, + positive, 0 no effect, - negative, -- strongly negative

6.3.3. *Social and environmental impacts*

The changes in administrative procedures would impact on public authorities and the administrative burdens on business. All measures on administrative procedures are proposed in order to lower the burden on administrative procedures for government and business.

The introduction of a special administrative procedure for small consignments to fight the increasing number of goods ordered and shipped following a sale via the internet will have an effect on consumers in the sense that these infringing goods will not reach them.

The Commission’s most recent report on EU Customs enforcement of intellectual property, concerning 2009, noted that more and more potentially dangerous items, used by European consumers in their daily lives, were now being detained by customs. Counterfeit goods intercepted by customs are not tested to see if the products are also dangerous to the health and safety of the consumer. Therefore, the health and safety impact on consumers cannot be quantified. However, as these products are wilful infringements and are normally not produced under the same quality and safety standards as the original goods, they are considered to be a potential threat.

No environmental impacts can be associated with this problem.

6.4. **Problem III: Certain aspects of the administrative procedures could be interpreted in a manner that leads to an unbalanced approach towards different legitimate stakeholders**

Divergences by the customs authorities, in the interpretation and application of the Regulation would be disruptive for trade and could lead to tension in the EU's international relations with certain WTO partners and possibly to litigation. The lack of express codification of certain legal principles in the Regulation following the entry into force of the Lisbon Treaty could also lead to litigation before European Courts.

The application by EU customs authorities of provisions on restrictive or prohibitive measures to international trade, such as those related to the enforcement of IPR, must

respect international obligations and commitments, as well as the principles of EU law. Such measures, insofar they belong to the area of the common commercial policy, must be applied in a uniform way. In addition, those measures must be applied in a balanced manner, taking into consideration, on the one hand, the need to enforce the measures effectively and on the other hand, the facilitation as well as respect of legitimate business. To that end and to avoid unfounded action, the provisions must provide legal certainty.

In order to assess the options for this problem, the following criteria have been considered:

- legal certainty on the application of the Regulation
- uniformity of application
- risk of unfounded decisions for detention

6.4.1. *Situations in which customs are competent to act might be affecting the smooth transit of medicines across the EU territory towards third countries*

A - Baseline option

The baseline scenario is that no action is taken. The risk that the lack of clarity concerning certain provisions of the current Regulation, leading to unjustified detentions by EU customs of goods in transit that are not destined for the EU and a possible non uniform application of the Regulation in this regard, would remain. As this lack of clarity gave rise to the initiation of dispute settlement proceedings against the EU before the WTO, a continuation or escalation of the disputes cannot be excluded. Furthermore, as the dispute related to transiting generic medicines, the EU's policy of ensuring access to medicines for developing countries could be put unnecessarily into question.

B - Non-legislative measures option

Non-legislative instruments such as guidelines, could help address the problem of certain detentions of medicines in transit. These non-legislative instruments could help in clarifying the interpretation of Council Regulation (EC) 1383/2003 in the light of the EU's international obligations in the WTO context and in light of the relevant basic principles of EU law, as established and interpreted by the Court of Justice of the EU. In particular, guidelines could clarify the procedural nature of the Regulation with regard to the substantive IP law and the implications for border enforcement of IPR of the EU's obligation to guarantee freedom of transit. Whereas this would help in establishing a greater degree of legal certainty on the customs enforcement of IPRs with respect to medicines in transit, it is far from certain whether this option would be sufficient to address India and Brazil's concerns, and avoid further escalation of the dispute.

C - Legislative measure option

The legislative option would consist in introducing a new provision in the Regulation that would remedy the lack of clarity with respect to goods in transit⁴⁴, when these goods are suspected of infringing an IPR. As a result of this provision, customs authorities would ensure that access to medicines is not hampered, particularly with regard to medicines in transit through the EU.

Amending the Regulation would provide legal certainty and guarantee a uniform application throughout the EU, thereby allowing effective action against any situation covered by the Regulation, whilst applying the procedures in such a manner as to avoid undue disruptions to trade in non-infringing goods that are merely transiting the EU territory and are not destined for the EU market.

Summary Table for Problem 3.1 Situations in which customs might affect the transit of medicines across the EU territory towards third countries

Criteria \ Options	Legal certainty on the application of the Regulation	Uniformity of application	Risk of unfounded decisions for detention
A – Baseline	0	0	0
B – Non legislative approach	+	+	+
C – Legislation	++	++	++

Magnitude of effectiveness: ++ strongly positive, + positive, 0 no effect, - negative, -- strongly negative

6.4.2. Right to be heard

A - Baseline option

The baseline scenario is that no action is taken. The Regulation would therefore not provide for the codification of the general principle established by the Court of Justice of the EU, laid down in the Charter of Fundamental Rights and the laws of the Member States on the need to provide for the right of every person to be heard before any decision is taken which could adversely affect him. The principle would continue to be applied. However, due to the specificity of the customs procedures, legal certainty and predictability would be unnecessarily limited and could also be perceived as an unjustified unbalance of rights in favour of right-holders. The baseline

⁴⁴ **Article V GATT Freedom of Transit** . 1) *Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a contracting party when the passage across such territory, with or without trans-shipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this article "traffic in transit".*

2. *There shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties. No distinction shall be made which is based on the flag of vessels, the place of origin, departure, entry, exit or destination, or on any circumstances relating to the ownership of goods, of vessels or of other means of transport.*

(...)

scenario would also imply the possible risk that the authorities in the Member States will introduce incorrect or non-uniform procedures in order to comply with this fundamental right.

B – Non-legislative measures option

With a view to achieving a satisfactory level of compliance of these rights of defence and their harmonised implementation in all EU Member States, some non-legislative instruments might be adopted, such as the issuance of guidelines. Such guidelines would remind the customs authorities of the pertinent EU jurisprudence and indicate that the interpretation of the Regulation must be done in the light of the relevant basic principles of EU law. Likewise, the issue could be addressed within the framework of the Customs Code Committee - Counterfeit and Pirated Goods Section, through the promotion of exchanging views and best practices between Member States. These non-legislative measures might be very effective with regards to the application of the Regulation by customs administrations but would not provide the desirable legal certainty on procedural steps with regard to other stakeholders.

C - Legislative measure option

In order to ensure that the application of the Regulation duly reflects the relevant fundamental procedural rights in EU law, provisions would need to be incorporated concerning the right to be heard in cases where customs authorities took decisions that adversely affected the person or persons to whom it was addressed.

In the same context, the Regulation needs to be adjusted with a provision that the person concerned, shall be notified, in the appropriate form, of the decision, which shall set out the grounds on which it is based and include information on procedural rights.

The Regulation falls within the scope of the EU common commercial policy, where the achievement of uniformity in the application of the measures is recognised as an essential condition to the implementation of that policy. The amendment of the Regulation would also ensure a uniform application of procedural rights in the context of customs enforcement of IPR.

Summary Table for Problem 3.2 Right to be heard

Criteria \ Options	Legal certainty on the application of the Regulation	Uniformity of application	Risk of unjustified decisions by customs authorities
A – Baseline	0	0	0
B – Non legislative approach	+	+	+
C – Legislation	++	++	++

Magnitude of effectiveness: ++ strongly positive, + positive, 0 no effect, - negative, -- strongly negative

6.4.3. *Liability of customs*

A - Baseline option

The baseline scenario is that no action is taken. The text of the Regulation, which does not currently codify the relevant general principles in national law, with regard to non-contractual liability of public administrations, would remain. This aspect of the Regulation would remain open to interpretation and could be applied differently across the EU.

B – Non-legislative measures option

The non-legislative option could attempt to address the issue as none of the provisions within the Regulation should be applied against common principles of the EU Member States, contrary to what might be expected from Article 19(2) of the Regulation. Explanatory notes or guidelines might explain that the non-contractual liability of the customs authorities is ruled by the law of the concerned Member State in accordance with the last part of the second subparagraph of such article: "except where provided for by the law of the Member State in which the application is made or, in the case of an application under Article 5(4), by the law of the Member State in which loss or damage is incurred".

C - Legislative measure option

Under the legislative measure option the provisions within article 19 of the Regulation would be deleted. The Member States shall make good any damage caused by its institutions or by its servants in the performance of their duties in accordance with the laws of the Member States concerned.

Summary Table for Problem 3.3 Liability of customs

Criteria \ Options	Legal certainty on the application of the Regulation	Uniformity of application	Risk of unjustified decisions by customs authorities
A – Baseline	0	0	0
B – Non legislative approach	+	+	+
C – Legislation	++	++	+

Magnitude of effectiveness: ++ strongly positive, + positive, 0 no effect, - negative, -- strongly negative

6.4.4. *Simplified procedure: procedure and scope.*

A - Baseline option

The baseline scenario is that no action is taken. The notification procedure described in Section 3.2.2.3.iv) remains unchanged and the possible risks, i.e. wrong party being informed, not being informed at all or being informed at a very late moment, to the legitimate interests of concerned parties, such as the owners of the goods, the holders of the goods or customs declarant, would remain.

The lack of clarity of the provisions on the procedural steps of the simplified procedure within the current Regulation might lead to different interpretations across the EU and to a non-uniform implementation of such a procedure in the Member States.

Furthermore, the possible decision to destroy the goods detained by customs, even in cases where the alleged infringement is difficult to assess, would, in the absence of express opposition from concerned parties to the abandonment of the goods for destruction, continue to rely only on the “confirmation” of infringement by the right-holder.

B - Legislative measure option

Under this option, the introduction of two complementary provisions should be considered:

i) The procedure should be streamlined with regards to notifications to concerned parties, identifying who these concerned parties are, shifting the responsibility of the notification from the right holder to the customs authorities and establishing clear time periods to effectively notify and to react to the notification.

ii) In the case of presumed agreement to destruction, where no judicial authority has made a determination of IPR infringement and the decision of destruction of goods relies only on the initial suspicion of customs authorities, the lack of reaction from concerned parties and the confirmation of one of the concerned parties (the right-holder), the simplified procedure could be limited to “clear cases” of IPR infringements, such as counterfeit and pirated products. As 94% of the detained articles in 2009 were suspected counterfeit and pirated products (see table 2), the impact of this measure would be minimal. The advantage of such a distinction in procedures would be that the interests of third parties in the more complex IPR are better guaranteed.

The fact that counterfeit and pirated products are considered willful infringements of trademarks and copyrights, undermining the interests of legitimate trade, would justify such a distinction in administrative procedures between different IPR. The only way to create such a distinction is by legislative measures.

Summary Table for Problem 3.4 *Simplified procedure: procedure and scope*

Criteria \ Options	Legal certainty on the application of the Regulation	Uniformity of application	Risk of unjustified decisions by customs authorities
A – Baseline	0	0	0
B – Legislation	++	++	++

Magnitude of effectiveness: ++ strongly positive, + positive, 0 no effect, - negative, -- strongly negative

6.4.5. Social and Environmental impacts

The problems concerning certain aspects of the administrative procedures that may have resulted in an unbalanced approach towards different legitimate stakeholders

must be seen in connection on the one hand to international obligations and on the other hand, to practical implementation of current procedures. These issues create more clarity in the administrative procedures and as such have a positive impact on consumers in case they are involved in the process, for example as recipients of consignments ordered via the internet. The right to be heard and liability of customs give the consumer the possibility to object or seek compensation against any decision by customs authorities that might adversely affect them. As there is no historical data available on these new provisions, it is not possible to assess further the possible impact on consumers.

The issue of situations in which customs are competent to act and which might affect the smooth transit of medicines across the EU territory towards third countries could have a social impact on consumers in these third countries, in the sense that no more medicines are to be detained in case of mere transit upon a suspicion of a patent infringement. Delays in the delivery of such medicines would therefore be avoided.

None of the problems relating to the above-mentioned aspects of the administrative procedures is considered to have an environmental impact.

6.5. Administrative burdens

6.5.1 Administrative burdens on business

EU customs IPR enforcement is based on an application for action having been submitted by the IP right-holder. It is for the offended person to initiate legal proceedings to enforce their IPR. Since the submission of an application is not compulsory, the system and the proposed new options do not place any extra cost and obligations on right-holders, when compared to the current features⁴⁵ of the Regulation, which already encourages right-holders to lodge applications electronically when electronic data interchange system exists.

In principle, whichever policy option is chosen with regard to the problems addressed in this assessment, the features presently associated with an administrative burden for right-holders would remain to a certain extent. Today, once suspected infringing goods have been detained by customs, the right-holders are expected to inspect the goods and if they are identified as infringing goods, to contact the concerned parties seeking for an agreement to have such goods abandoned for destruction under customs control, or to pursue criminal or civil actions against the alleged infringer. Introducing a specific simplified procedure for small consignments containing counterfeit and pirated products, where the goods might be destroyed without the

⁴⁵ In order to secure a balance between, on the one hand, the objective of making the system accessible by all right-holders – in particular SMEs - and, on the other hand, the need to ensure facilitation of legitimate trade and the effectiveness of customs controls, the current Council Regulation (EC) 1383/2003 provides for some features:

- The application for action from customs authorities can be granted for a period not exceeding one year and it is not linked to a particular consignment previously targeted by the applicant;
- In the case of European intellectual property rights providing uniform protection throughout the Union an application may, in addition to requesting action by the customs authorities of the Member State in which it is lodged, request action by the customs authorities of one or more other Member States.
- The right-holder may not be charged a fee to cover the administrative costs occasioned by the processing of the application.
- Where electronic data interchange systems exist, Customs authorities must encourage right-holders to lodge applications electronically.
- The application for must contain all the information needed to enable the goods in question to be readily recognised by the customs authorities and proof that the applicant holds the right for the goods in question.

involvement of the right-holder, would considerably reduce the burden on right-holders. It would avoid the exchange of notifications and communications with the customs authorities, as well as the other procedures including the inspection of the goods and the necessary steps to reach agreement or to initiate legal proceedings before the Court. In addition, if customs were requested to notify the detention directly to the concerned parties, it would reduce the burden of the right-holders in carrying out such notification.

6.5.2 *Administrative burdens on customs administrations*

As stated in point 6.2.2 it is not possible to analyse the impacts of the different options in relation to the different problems on administrative costs.

Customs authorities perform their duty at the border of the Union and officers will control a broad variety of laws covering different policy areas. Each law contains specific rules related to the protection of intellectual property rights, cash controls, safety, health, and security provisions, control on tax issues and tariff matters.

It is not possible to measure which part of each control is dedicated to a particular policy, so data concerning administrative costs solely related to IPR enforcement is not available. As customs officials would continue to carry out a broad range of activities, whether or not IPR enforcement activities were increased, the overall administrative budget is not expected to change; the impact would more likely be felt on the number of other tasks performed but this will depend largely on the frequency of infringing goods passing the border. However, the frequency cannot be predicted as the suggested new IPRs to be enforced have not been enforced by customs authorities until now.

Furthermore, the procedures to detain goods involving certain IPR infringements are in place in the EU since the 1st of January 1988. The extension of the scope of the Regulation would not therefore create a need to reorganise customs administrations.

The simplification of procedures for small consignments is expected to reduce the procedural steps and therefore the time spent on the treatment of each detention file. This is expected to counter-balance the possible increase of destruction costs for customs as a result of more efficient procedures.

The customs administrations of the Member States provide customs officers with continuous training. Training on IPR enforcement should be included in the programs for training; in particular, if the scope of the Regulation in terms of IPR infringements is extended. Training costs for customs personnel could be shared between national budget and the EU Customs programme, which already covers such activities.

7. COMPARING THE OPTIONS

Problem I: Some IPRs are not enforced by customs at the EU border	Baseline scenario	Non-legislative measures	Legislative measures
Some IPRs infringements are not currently covered by the Regulation	0	0	C1 + C2 ++
Problem II: Burdensome Administrative procedures	Baseline scenario	Non-legislative measures	Legislative measures
II.1 Non-implementation of the simplified procedure in some Member States	0	N/A	++
II.2 Sales of IPR infringing goods via the internet	0	+	++
Problem III: Certain administrative procedures could be interpreted in a manner leading to an unbalanced approach towards different legitimate stakeholders	Baseline scenario	Non-legislative measures	Legislative measures
III.1 Situations in which customs are competent to act might affect the smooth transit of medicines across the EU territory towards third countries.	0	+	++
III.2 Right to be heard	0	+	++
III. 3 Liability of customs	-/0	0/+	++
III.4 Simplified procedure: procedure and scope	-	N/A	++

As set out in section 6, the legislative option offers the best suitable solution to address the problems that emerged from the implementation of the present Regulation, such as non-harmonised or burdensome procedures, or those resulting from shortcomings, such as IP rights not covered by the Regulation. With regard to the issue of IPR not enforced by customs, the legislation option provided for two approaches; firstly, the extension of the possible types of infringements to rights

already covered by the current Regulation (option C1,) and secondly, to extend also the types of IPR to be enforced by customs (option C2). The most suitable option would be C2, the extension of possible infringements foreseen under C1, as well as the extension of IPR.

Introducing procedural clarifications into the Regulation would also provide the maximum legal certainty on the treatment of medicines in transit, when it comes to patent law. A Commission proposal to amend the present Regulation should preferably respond to all the problems addressed in this Impact Assessment, to ensure a balanced outcome in terms of benefits and constraints for all categories of affected persons.

Non-legislative measures would only partially address the identified problems. Explanatory notes or guidelines could help clarify the applicable procedure concerning the situation of transit through the EU, or how to apply the general principles of law, such as the right to be heard, in the context of the present Regulation. However, non-legislative measures cannot address the objective of widening the scope of IPRs to be enforced by customs.

In some instances, a combination of legislative and non-legislative measures should be envisaged to support the implementation of the new Regulation, as described in previous sections, and in section 8 below.

However, retaining the baseline should be excluded if the Commission is to respond adequately to the Council's request to review the legislation and to the concerns expressed by stakeholders during that process.

8. MONITORING AND EVALUATION

8.1. Monitoring the implementation of the Regulation

The Commission shall ensure that systems are in place to monitor the functioning of the system designed by the new Regulation. The monitoring and evaluation of the application of the new Regulation will be carried out through the following mechanisms.

8.1.1 Collecting, analysing and publishing statistics on customs actions under the Regulation

As in previous years, the Commission will analyse the data provided by EU Member States which forward results relating to IPR infringements to the Commission on a quarterly basis and will report yearly on statistics of customs interceptions of articles suspected of infringing intellectual property rights;

The system will be improved with the implementation of an electronic system (COPIS), which is currently being developed by the Commission, that shall facilitate the sharing of information between customs authorities, through the common registration and maintenance of the applications for action. COPIS will also register

customs detentions, thereby facilitating the collection and analysis of statistics on customs activities.

8.1.2 *Monitoring difficulties in implementation*

The Commission shall ensure that Member States communicate all relevant information on the application of the new Regulation to the Commission, including detailed case-studies on sensitive issues. These cases will be analyzed by the Commission together with the Member States through the Customs Code Committee (Counterfeit and Pirated Goods Section).

8.1.3 *Involvement of stakeholders*

The Commission shall ensure that all stakeholders are given the opportunity to express their views and concerns with regards to the application of the Regulation through the appropriate channels. In particular, the stakeholders will be invited to participate in some meetings of the Customs Code Committee together with the Commission and representatives of the Member States.

8.2. Supporting the implementation of the Regulation with accompanying measures

The Commission shall develop, together with the Member States experts and interested stakeholders, a number of accompanying measures to facilitate the implementation of the new Regulation.

8.2.1 *Guidelines and manuals*

The Commission shall update existing guidance documents and manuals for the implementation of the Regulation by customs and right-holders. Guidelines shall also be produced to clarify the present Regulation on transit through the EU.

8.2.2 *Training plan*

The Commission shall develop a training plan on the main new features of the new Regulation, to be implemented through existing instruments, such as the Customs 2013 Programme or the European Observatory on Counterfeiting and Piracy.

8.2.3 *Activities to tackle internet sales of IPR infringing goods*

Awareness-raising activities informing consumers on the risks and impacts of buying counterfeits via the internet, will be developed to curb the volume of counterfeit goods stopped by customs through postal and courier traffic. The Commission and Member States shall also implement the recommendations adopted in the context of the Seminar organised under the Customs 2013 Programme in October 2010, on Counterfeiting and the internet, by adapting national laws, creating a customs structure to deal with internet sales, and establishing an EU network of national correspondents to exchange information on internet sales of counterfeits. Other activities as described under section 6.3.2 under the non-legislative option, could also be envisaged.

8.3. Improving knowledge about the scale and impacts of trade in IPR infringing goods

One of the main constraints in assessing the impacts of any policy option in the field of IPR enforcement is the lack of reliable data. Existing data on the trade in IPR infringing goods is fragmented and not comparable, thus making it difficult to estimate the overall scale and scope of the problem, the impact on the EU and the impact of any policy measures put in place to tackle that problem.

To respond to this data shortage, the European Observatory on Counterfeit and Piracy has assumed, as one of its priority objectives, the aim of improving the collection and use of information and data. The Observatory was launched in 2009 and comprises of over 40 private stakeholder representatives, the 27 Member States and the Commission.

The current role of the Observatory was agreed by its private sector stakeholders and the Member States and is based on the 2008 Council Resolution, the Commission's Communication on enhancing the enforcement of intellectual property rights in the internal market⁴⁶ and the subsequent Council Resolution of 1 March 2010 on the enforcement of IPR in the internal market⁴⁷. These set out a series of practical initiatives on how the Observatory should respond to the effect that counterfeiting and piracy is having on the EU. Its primary functions are improving the collection and use of information and data; promoting and spreading best practice amongst public authorities, spreading successful private sector strategies and raising public awareness.

Within these primary functions, the Commission identified specific issues that require urgent action. For example, while numerous studies have concluded that the international trade in counterfeit and pirated goods has grown steadily over the last decade, they are often challenged for not being comprehensive or for using incomparable figures resulting from different methodologies. There is an urgent need to improve this situation by developing a common methodology, for use by private and public sector bodies, so that robust reports can be produced, which outline the true scope and scale of the problem. Such reports would be the basis for more evidence-based policy decisions and more focussed enforcement strategies.

As a result a tender was launched for experts to assess the scope, scale and impact of counterfeiting and piracy in the internal market, through a defined methodology for collecting, analysing and comparing data. The methodology proposed by the contractor should result in key indicators that would be applicable throughout all Member States and sectors and which could be used in future studies and analysis. The contractor began work in December 2010 and will firstly identify and compile existing studies and methodologies. Secondly on the basis of the research, the contractor will propose a preferred methodology, which will be used to quantify the scope and scale of counterfeiting and piracy in the internal market, in particular focusing on its implications on various areas, like innovation, growth and competitiveness, creativity and culture, public health and safety, employment, environment, tax revenues, crime.

⁴⁶ COM(2009)467final

⁴⁷ OJ C 56, 6.3.2010

**SUMMARY OF THE PUBLIC CONSULTATION ON THE REVIEW OF
CUSTOMS LEGISLATION ON IPR¹ ENFORCEMENT**

1. GENERAL COMMENTS

The Commission carried out a public consultation to give all stakeholders an opportunity to contribute to the review of customs legislation on enforcement of IPR. The period of the consultation was from 25 March, 2010 to 7 June 2010 and the Commission received 89 contributions. Of these, 43 were from organisations and enterprises registered in the register of interest representatives of the European Commission, 42 from non-registered organizations, companies and citizens and 4 from national public authorities.

A summary of the various contributions is contained in this annexe and the initial document launching the public consultation is available in DE, FR and EN on the "Customs consultation" website of the Commission.²

Table 1 categorizes the groups of respondents. The first four categories are based in those used in the register of interest representatives of the European Commission. In the case of Registered Organisations, the classification of the stakeholders into the different categories was made according to the information provided by the Register; in the case of non-registered organisations the classification into the different categories was made on the basis of the information provided within their submission or found in their website.

In addition to right holders, industry and professional legal organisations, respondents also included NGO, think-tanks and services providers related to international trade (couriers, post services and forwarders). The NGOs and think tanks made significant contributions with regards to the concerns expressed by India and Brazil with the customs detentions of medicines in transit across the EU. Representatives for couriers, postal services and forwarders expressed keen interest in the subject matter of the consultation as it was considered that the actions taken by customs with regards to suspected IPR infringing goods could affect their interests significantly.

¹ Council Regulation (EC) No 1383/2003 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 L 196, 2.8.2003, p. 7–14

² http://ec.europa.eu/taxation_customs/common/consultations/customs/ipr_2010_03_en.htm

	Registered	Non-registered	Public authorities	Total
I- Professional consultancies and law firms	0	0		0
Law firms	0	0		0
Public affairs consultancies	0	0		0
Independent public affairs consultants	0	0		0
Other (similar) organisations	0	0		0
II- trade associations and enterprises	39	35		74
Companies	10	10		20
Professional associations	25	23		48
Trade unions	0	0		0
Other (similar) organisations	4	2		6
III-Non-governmental organisations (NGOs) and think-tanks	4	1		5
NGOs and associations of NGOs	2	0		2
Think-tanks	0	0		0
Other (similar) organisations	2	1		3
IV-Other organisations	0	4		4
Academic organisations and associations	0	1		1
Other (similar) organisations	0	3		3
V-Citizens		2		2
VI-Public Authorities			4	4
TOTAL	43	42	4	89

This summary provides some figures on the outcome of the contributions to the specific issues, though they should be seen as general indicators. In particular:

- It should not be assumed that all stakeholders were represented proportionally in relation to the number of contributions produced.
- Many submissions should be read as a whole and the assessment on the answers provided by the respondents with regards to the specific questions cannot be understood without reading the rest of the answers to the other questions. Consequently, isolated answers to specific questions are not always comparable.
- The figures refer to the documents presented as submissions. Accordingly, when one document has been jointly presented by several stakeholders, it is considered as only one contribution. Conversely, where several stakeholders have produced the same contributions in different documents, they are considered as several contributions.
- The respondents had varying levels of stakeholder representation and included big business organisations, single companies and private citizens.

The outcome of the consultation could be summarised as follows:

- **Scope of the Regulation: Goods in transit through the territory of the EU (Question 1 of the consultation paper)**
- 46 submissions defended the competence of customs authorities to detain goods in transit through the EU territory upon suspicion of IPR infringement.
- 7 submissions focused on the issue of medicines in transit through the EU territory: from them, 6 defended that only counterfeit medicines could be detained by customs and 1 defended that the right holders should avoid initiating legal proceedings when the detention of medicines in transit had taken place upon suspicion of patent infringement in EU.
- 5 submissions indicated that, concerning goods in transit, the Regulation should deal only with counterfeit and pirated products; 2 submissions indicated that it should deal, at least, with counterfeit and pirated products.
- A few contributions indicated that the treatment of goods in transit should be clarified with regards to goods in transit through the territory of an EU Member State to another EU Member State.
- The carriers, concerned about the impact of the enforcement activity of customs on goods in transit could on their business, reminded the need of maintaining a balance between controls and facilitating legitimate trade.

- **Scope of the Regulation: range of IPRs the Regulation should cover (Question 2 of the consultation paper)**
- 53 respondents stated that the range of IPR covered by the current Regulation should be maintained or extended. From these 53 contributions, 5 indicated that the current scope was enough and had no interest in extending it; 24 indicated that the respondents were satisfied with the current scope; and 24 submissions indicated or suggested that would like to have a broader scope.
- 10 submissions were in favour or seemed to suggest, a narrower range of IPR than that currently covered by the Regulation 13838/2003. From these 10 submissions, 4 proposed to limit the scope of the Regulation to counterfeit and pirated products, 4 questioned the advisability of having patents within the scope of the Regulations; 1 warned that there was a danger that IPR was becoming a “catch all” for much that had varying degrees of intellectual probity; and expressed the belief that customs should not have any involvement in IPR enforcement at all.
- Remarks related to specific IPR:
 - Trademarks: 11 submissions asked to extend the Regulation to cover all trade mark infringements, and not only counterfeit trade mark products.
 - Patents: 7 submissions expressly mentioned patents as one of the IPRs that should remain under the Regulation.
 - Circumvention devices: 4 submissions requested to include within the scope of the Regulation devices used to circumvent technologic measures to protect copyrights.
 - Utility models: 6 submissions stated that utility models should be also included within the scope of the Regulation.
 - Design rights: 4 submissions expressed the view that designs, either registered or not, should be covered by the Regulation.
 - Trade secrets: 2 submissions supported the inclusion of trade secrets inside the scope of the Regulation.
 - Trade names: 1 contribution stated that trade names should be also covered by the Regulation.
 - Topographies of semiconductor products: 3 contributions said that topographies of semiconductor should be covered by the Regulation
- Remarks on the definition of IPR infringement within the Regulation: 5 contributions suggested that the definition of counterfeit products within the Regulation should be an autonomous definition not linked to the definition of trademark infringements, the first being related to characteristics of IPR infringing products and the second related to IPR infringing actions.

- **Scope of the Regulation: illicit parallel trade (Question 3.1 of the consultation paper)**

Concerning the issue of the derogation of parallel trade in the current Regulation, the outcome of the consultation was as follows: 44 contributions asked for deletion of the derogation; 5 contributions asked for the amendment of the derogation to allow customs authorities disclosing information to the applicants and 11 contributions asked to keep the derogation.

5 contributions exclusively or mainly addressed the issue of parallel trade: 3 in favor of withdrawing the derogation and 2 in favor of maintaining it.

- **Scope of the Regulation: "Overruns" (Question 3.2 of the consultation paper)**

Concerning the possible deletion of derogation of the so-called overruns, the outcome of the public consultation was: 34 submissions were in favor of the deletion; 8 submissions proposed to keep the derogation and 4 submissions proposed to modify the derogation to allow customs disclosing information to right holders.

- **Scope of the Regulation: "Travellers allowance" (Question 3.3 of the consultation paper)**

With regards to the possible derogation concerning non-commercial goods carried by the travelers within their baggage, 27 submissions proposed the deletion of the derogation, 16 submissions proposed to keep it and 5 submissions proposed to modify it.

- **Simplified procedure (Question 3.3 of the consultation paper)**

Concerning the simplified procedure, the results of the consultation were: 56 submissions stated that it should be compulsory and directly applicable for Member States, 3 submissions asked to maintain it as optional and 3 submissions proposed to delete it.

- **Small consignments (Question 5 of the consultation paper)**

Concerning the possibility of introduction of a special simplified procedure for small shipments, the contributions could be classified in the following groups: 40 submissions were in favour of such procedure (however, there were significant differences in their approach to it), and 7 submissions opposed to a specific procedure for small shipments.

- **Costs (Question 6 of the consultation paper)**

The stakeholders – IP holders, intermediaries and customs – were concerned to a great extent by the increasing costs in the application of the Regulation and its attribution to concerned parties. The different approaches taken by respondent made their views not comparable, so it was not considered advisable to provide the number of contributions supporting a particular position.

- **Facts and figures provide by the respondents concerning costs.** The public consultation did not bring about much quantifiable data concerning costs of enforcing IPR at the border. Nevertheless, the respondent provided some examples.

- **Scope of the provision on costs.** The vast majority of the contributions (32) stated that the scope of the provision on costs of the Regulation should be limited to costs directly incurred by customs and all other costs should be borne in accordance with the

common provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member State where the action has been taken. However, there was not always an agreement on what should be understood by “costs directly incurred by customs”. 4 contributions asked for a comprehensive approach: the Regulation should cover all costs incurred as a result of the importation or exportation of counterfeit goods.

- **The infringer should be liable for the storage and destruction costs of IP infringing goods.** Not surprisingly, there was a consensus on the attribution of costs to the infringers. The submissions also suggested that there was a lack of clarity in the wording of the Regulation with regard to this principle

- **The liability of intermediaries.** In many contributions coming from IP right holders, it was stated that intermediaries should also to an extent be liable for costs in certain circumstances. The intermediaries presented 6 submission including counter-arguments to the position of the IP right holders on liability of costs.

- **Some right holders stated that costs should be absorbed by the Customs Administrations.** Some respondents questioned why the customs shouldn't bear the costs in the same way as other costs for law enforcement are typically borne by the relevant authorities.

- **Requests on consistency and transparency around calculation of costs.** With regards to costs raised in the framework of current customs IPR enforcement, some stake holders requested consistency, transparency and predictability of them.

- **Contributions submitted by lawyers and professional lawyers associations.** These interesting submissions provided a different approach highlighting some technical aspects or providing a more comprehensive approach on who should preliminary bear the costs concerned with the storage and/or destruction of (alleged) infringing goods and the final distribution of costs.

- **Other issues (Question 7 of the consultation paper)**

As requested in the consultation paper, the stake holders gave their comments on different issues, not specifically addressed in that document. The respondents made comments on the following topics:

- Concerns on the IPR enforcement policy of the EU.

- Destruction of IPR infringing goods (person responsible for organizing destruction; secure and friendly environmental destruction; disposal through non-commercial channels)

- Provision of information by customs authorities to IP right holders and authorized use of information.

- Application for action (formalities; EU wide centralized electronic system; term of validity of customs application; single application for copyright – extension of Article 5(4))

- Inadequate protection for the alleged infringer against the damages than can occur as a result of an unjustified suspension of goods.

- Period of 3 days for perishable products to initiate legal proceedings in case of perishable goods.

- Retention right of transporters and owners of customs warehouses.

- Concerns which hinder Regulation 1383/2003 to fully explore its potential.
- The need for an information system between national and EU authorities.
- Customs and market surveillance authorities need more resources in order to work efficiently.
- Variation of practice throughout the EU.

2. SCOPE OF THE REGULATION: SITUATIONS IN WHICH THE CUSTOMS AUTHORITIES SHOULD BE COMPETENT TO TAKE ACTION. (Question 1 of the consultation paper)

2.1. Customs procedures and goods in transit

With one exception, the respondents did not put in question the advisability of empowering customs authorities to enforce IPR with regards to goods under their supervision. The answers to the tabled question related to the treatment, within the framework of customs IPR enforcement, of goods in transit across the EU territory in their way from a third country to another third country, whatever customs procedure those were placed under, rather than to the different customs procedures themselves.

2.2. Submissions defending the competence of customs authorities to detain goods in transit through the EU territory upon suspicion of IPR infringement.

The majority of the submissions (46), coming from industry and professional associations, stated that the customs authorities should be competent to detain goods in genuine transit through the EU territory upon suspicion of IPR infringement.

For these respondents, it was considered crucial to ensure that the principle of freedom of legitimate trade is not used as a pretext to impair efficient measures aimed at combating infringement of IPRs. This applies in particular now that the trade of IPR infringing goods is taking place at a global scale. In their opinion, it was essential that the customs authorities apply the Regulation also to suspected goods in transit or transshipments, as main counterfeiters and/or IPR infringers could make some parts of the EU territory a major platform for their illegal trade.

A considerable number of these submissions indicated that different approaches were currently being taken by customs authorities and courts across the European Union with regards to the applicability of Council Regulation (EC) No. 1383/2003 to goods in transit from a non-EU member state to another non-EU member state via an EU member state. While requesting clarification on the legal framework to apply to goods in transit, many respondents assumed that the IPR substantive law of the EU and its Member States does not provide the owner of the IPR with the right to prevent acts of mere transit. To solve the apparent contradictions between the applicable substantive IPR law and the IPR customs enforcement Regulation with regards to goods in transit, 14 submissions suggested keeping or introducing the so-called fiction rule. This fiction rule, which is based on an interpretation of the recital 8 of the current Regulation, means that the goods entering into a territory should be considered as manufactured in such territory, and thus they would be considered IPR infringing goods, even if not intended for the EU market, if they would have been considered IPR infringing goods in case they had been manufactured in that territory. 2 submissions asked for the modification

of the substantive IPR law to clarify that goods in transit might be considered as IPR infringing goods.

With regards to the potential conflict between the Regulation and the principle of freedom of transit of the WTO law and the need that the enforcement of IPR should not unduly hamper legitimate trade, for these respondents the freedom of transit principle does not aim to apply to illicit trade, including trade in goods infringing IPRs. 13 submissions proposed that, when deciding whether an IPR has been infringed or not for the application of the Regulation, reference should be made not only to the law of the Member State in which territory the goods have been intercepted by customs, but also to the laws of the countries of origin and destination.

2.3 Medicines in transit through the EU territory.

Some submissions focused in particular on medicines in transit through the EU territory. There were 6 contributions to the public consultation, coming from ONG, think tanks and generic medicines industry that indicated that medicines in transit through the EU only should be detained by EU customs upon suspicion of willful infringements of trade mark rights (counterfeit medicines). They requested a broader re-examination of the approach of the European Union towards intellectual property and access to medicines in developing countries and expressed their view that revisions to the Regulation should ensure that access to affordable, safe and effective medicines is prioritized above commercial interests of pharmaceutical companies to enforce its private intellectual property rights in these countries.

There was 1 contribution (from the pharmaceutical industry) that also focused on medicines in transit through the EU territory but with a different approach. On the one hand, it was argued that customs should retain their current powers to act against goods suspected of infringing an IPR in all situations in which infringing goods are under customs supervision (including in particular exportation, transit, trans-shipment, temporary deposit, customs warehousing procedures, placement in free zones or free warehouses), and not just in situations when infringing goods are declared for importation. Customs should have the competence to make inspections, detain and suspend release of goods if they are suspected of infringing IPR, i.e., counterfeiting, piracy or patent infringement. On the other hand, the right holders should voluntarily limit the utilization of the processes available under the Regulation to exclude them in cases where there was no infringement within the EU

2.4 The challenges of applying a “one size fits all approach” to the different types of IP rights.

There were 7 contributions to the public consultation, coming from right holders, lawyer associations, academic institutions and think tanks that proposed that, with regards to goods in genuine transit, a distinction should be made between the different kind of IPR infringements: products in genuine transit should be detained in case of suspicion of visible IPR infringements, namely counterfeit or pirated products. From these submissions, 2 indicated that “at least” counterfeit or pirated products in transit should fall under the scope of the Regulation, while the other 5 indicated that only in case of counterfeit and pirated products customs should be allowed to detain goods in transit upon suspicion of IPR infringement. One of the contributions included in this last group indicated that the scope of the Regulation should be narrowed to include any form of transit only if there is a substantiated threat of either trade diversion onto any of the markets of the EU member states or of a misuse of the transit procedure for conduct

of an illicit activity – judged both under the law of the transit country and the country of destination.

One submission justified this approach with the following argument: IP rights which involve complicated technical or scientific assessments can clearly be handled by customs authorities with a larger degree of certainty regarding the existence of an infringement. Complex technical and scientific assessments are typically involved in relation to patents and similar rights (e.g. utility models, plant varieties). By contrast as concerns trademarks and similar rights (e.g. designs) and for copyrights, customs authorities may more easily assess the infringing potential on their own by a simple *prima facie* comparison of samples.

One contribution (from an IP right holder) proposed that the different regime to apply to goods in transit should be based on the nature of the goods: goods identified or categorized as or potentially dangerous for consumers, national security or national infrastructures could be detained in transit upon suspicion of IPR infringement.

2.5 Goods in transit through the territory of an EU Member State to another EU Member State

Some contributions explained that the different approach of EU customs and courts related not only to goods designated at the non-EU market, but also addressed to an EU Member other than the one where customs took action. Differentiation between different types of “transit cases” was necessary; according to certain respondents, there were cases where goods from third countries were in transit across the territory of an EU Member State on their way to another Member State, either placed under a customs procedure or after being released to free circulation in another Member State, where the regulatory framework and its interpretation by Courts and customs was not clear. There was one contribution fully addressed to this issue.

2.6. Concerns expressed by carriers

Stakeholders from the transport sector expressed their concerns about the consequences that the enforcement activity of customs on goods in transit could have on their commercial activity.

One submission stated that it was of particular importance that legitimate trade through the EU should not be hampered by disproportionate interventions of the customs authorities in their duty to enforce IPR. Customs should use risk management to set priorities more effectively and allocate necessary resources for maintaining a proper balance between controls and facilitating legitimate trade. One respondent stated “Il est important que cette nouvelle législation ne crée pas une concurrence déloyale entre les services postaux européens soumis à ce nouveau régime et les services postaux d’autres zones économiques (Nord américaine et Asiatique principalement) ou situées à la périphérie de l’Union. Sur le fond, une application cohérente du règlement à l’ensemble des flux import, export, et transit est souhaitable. “

3. SCOPE OF THE REGULATION: RANGE OF IPRS THE REGULATION SHOULD COVER. (Question 2 of the consultation paper)

3.1 Broad vs. narrow range of IPR to be cover by the Regulation

With regard to the scope of the IPR border measures Regulation in terms of IPR that should be covered, the opinions contained in the submissions could be classified in two general groups: those pushing for a broad range of IPR and those suggesting a narrower scope.

53 respondents stated that the current range of IPR should be maintained or extended. From these 53 contributions,

- 5 indicated that the current scope was enough and had no interest in extending it;
- 24 indicated that were satisfied with the current scope; and
- 24 indicated that would like to have a broader scope.

10 submissions were in favor or seemed to suggest a narrower range of IPR than currently is covered by the Regulation 13838/2003. From these 10 submissions,

- 4 proposed to limit the scope of the Regulation to counterfeit and pirated products;
- 4 explained their doubts with regards to the advisability of having patents within the scope of the Regulations;
- 1 warned that there is a clear and present danger that IPR is becoming a “catch all” for much that has varying degrees of intellectual probity; and
- 1 expressed the belief that customs should not have any involvement in IPR enforcement at all.

3.2 Submissions pushing for a broad range of IPR under the Regulation

Stakeholders employed certain general arguments to keep or extend a wide range of IPR. The following paragraphs include arguments deployed by these stakeholders to support their view:

- The Commission has consistently pressed for the protection of all IPRs in international negotiations; it would be illogical to limit their protection in the EU.
- It is important for efficiency reasons that all IPRs remain covered in the same way by the Customs Regulation 1383/2003. It would be detrimental to limit the type of IPRs for which customs can take action and/or to provide for special regimes per IPR concerned, especially as some goods can be covered by several types of IPRs.
- The case in favour of including all IPRs is primarily that every tool that is potentially available to rights owners should be deployed in the fight against infringement of IPRs
- Although infringements of some IPR may be more difficult to prove, this is not a reason to prevent the IPR owner from customs protection.

- Excluding certain rights might lead to more confusion. Also, different economical sectors might use different IP-rights. To exclude certain rights might therefore unnecessarily demonstrate a lower level of protection in certain fields. The range of IP Rights covered by the Regulation should include all the Industrial and Intellectual property rights even if in certain cases it seems quite difficult to identify the IP right infringed. Reducing the list of the IP Rights enforced would encourage infringers to concentrate activity in fields where the protection was weaker.

In addition to these general remarks, right holders made remarks addressed to extend or maintain the scope of the Regulation with regards to some specific IPR:

- 11 submissions asked to extend the Regulation to cover all trade mark infringements. The current IP Border Measures Regulation defines “counterfeit goods” as goods “bearing without authorization a trade mark identical to the trade mark validly registered in respect of the same type of goods, or which cannot be distinguished in its essential aspects from such a trade mark”, and which thereby infringes the trade mark holder’s rights under either Community or national law. This definition does not cover all situations in which trade mark owners are entitled to prevent unauthorized use of their trade marks under EU and national trade mark substantive law. Therefore, the definition of “counterfeit goods” and of “pirated goods” should be revisited so as to cover all goods capable of infringing trade mark, mainly confusingly similar trade marks and well known trade marks.
- 7 submissions expressly mentioned patents as one of the IPRs that should remain under the Regulation. One contribution stated: “We are aware of siren voices advocating the exclusion of patents from the scope of the Regulation 1383/2003 given the difficulties of determining a patent infringement when goods are detained at the border. These voices should be resisted. In order to ensure that the right holder can draw full benefit from his research, innovation and creative activities, effective enforcement of patent rights is of particular importance. Effective enforcement of patent rights begins at the border before the respective goods hit the markets.”
- 4 submissions requested to include within the scope of the Regulation goods that were used to remove or circumvent copy protection or to decrypt protected broadcast signals the scope of the Regulation should be enhanced to cover these supporting tools.
- 6 submissions stated that utility models should be also included within the scope of the Regulation.
- 4 submissions expressed the view that designs, either registered or not, should be covered by the Regulation. One submission read as follows: although the counterfeiting of trade-marks is the infringement the public at large is most familiar with, our textile and clothing industry is also harmed, and perhaps more deeply, by the copying of its designs. This intangible asset is a major trump card for European companies, especially SMEs-SMIs, as it determines to a wide extent the commercial success or failure of a product. Today, we reckon that some 10,000,000 textile designs are created by our companies per year.
- 2 submissions supported the inclusion of trade secrets inside the scope of the Regulation, one of which related solely to this subject.
- 1 contribution stated that trade names should be also covered by the Regulation.
- 3 contributions said that topographies of semiconductor should be covered by the Regulation

As said above, 5 submissions accepted the wide range of IPR inside the scope of the Regulation but showed reluctance to include new IPR. It was stated that the range of IPR covered by Council Regulation (EC) No 1383/2003 was sufficient to enable actions to be taken against what the respondent considered to be “counterfeit goods”; the introduction of a broader range of IPR, might result in substantial burdens on customs authorities, which would need to train customs officers to work with these new IPRs.

3.3 Submissions asking for reducing the scope of the Regulation.

There were 5 submissions that stated that customs should be limited to deal with counterfeit and pirated goods. It was stated that stringent customs and enforcement practices provided an excellent tool to fight and punish trademark counterfeiting and piracy, but were not fully suited to the complex world of patent disputes. Another stated that the Regulation should only apply to trademark measures that were narrowly circumscribed to willful and intentional trademark infringements where there was a clear effort to intentionally mislabel a good, such as a medicine.

One right holder affirmed that the problem of determining whether a product infringed a patent or a utility model was that it required a greater degree of sophistication in the analysis of the product and of the validity and scope of protection of the patent or utility model. These facts were difficult for customs authorities to apply. In cases of counterfeiting trade mark rights, it was much simpler. The application of the same rules for counterfeiting of trade marks to infringement of patents and utility models in practice resulted in inefficiencies. A specific system for infringement of patents and utility models would be required.

Another stakeholder said that the infringement of patents should also be prevented but should not be treated under the same provisions as the infringement of trade marks or design rights. Border measures regarding infringements of patents should either be removed from the Regulation or alternatively there should be a complete revision of the Regulation to take into account the careful assessments required to establish patent infringement. Normal patent infringement proceedings in a European court took more than one year. It was common to have specialized attorneys at law together with patent attorneys to plead and defend patent cases. Moreover the court may also appoint a technical expert, highly skilled in the technology, to come to a judgment in a specific case. To the extent the Regulation was to be revised within this area, a system similar to the US ITC proceeding was suggested, considered to be quicker but included proper infringement analysis by competent judges.

3.4 Contributions asking for an autonomous definition of IPR infringement within the Regulation different than the one provided by the substantive IPR law.

5 contributions suggested this line. One stated, “The definition of ‘counterfeit goods’ within the meaning of the Regulation regards to the infringing goods itself and not to the infringing deeds. This basic principle is not only important to realize from a legal point of view but also to maintain a manageable and successful enforcement at the border. The information submitted to the right owners to identify the goods as currently phrased in article 9, does not enable them to identify the infringing deeds. In other words, it does not concern the use of trademarks itself; it only concerns the nature of the goods itself. Neither customs can identify the infringing deeds on account of the information within the meaning of article 9 sub 2 and 3 of the Regulation.”

Another explained: “However, we would suggest consideration of amendments to Article 2, which can create confusion: Article 2 defines infringing goods that fall under

the Regulation without the need for any further action to render them infringing. On the other hand, national law may define the infringement in terms of the act rather than the goods. Harmonizing the definitions so that the infringement is evaluated in a uniform manner throughout Europe, without having to examine whether the goods are infringing under a particular Member State's national law, would clearly be a step forward.”

4. SCOPE OF THE REGULATION – ILLICIT PARALLEL TRADE DEROGATION (Question 3.1 of the consultation paper)

Concerning the issue of the derogation of parallel trade, the outcome of the consultation was as follows:

- 44 contributions asked for deletion of the derogation
- 5 contributions asked for the amendment of the derogation to allow customs authorities disclosing information to the applicants
- 11 asked to keep the derogation

5 contributions were exclusively or mainly addressed the issue of parallel trade: 3 in favor of withdrawing the derogation and 2 in favor of maintaining it.

4.1 Submissions that proposed the deletion of the derogation concerning parallel trade

The general arguments supporting the derogation concerning parallel trade were:

- Despite their clear illegality under trade mark law, due to the inability of customs to seize parallel imports at the border right holders' only option is to set up a comprehensive (and complicated) surveillance mechanism scanning inmarket sales. Right holders have to go through hundreds of thousands of stores across the EU to identify such goods and take action on a case by case basis, i.e. for every single small sample found on the market. This ties up enormous resources, both for right holders and for relevant enforcement authorities/courts; meanwhile, large-scale parallel importers continue to operate, as they know customs will not control them and only some of their customers / resellers will be spotted. The net effect of the current situation is that parallel importation, although illegal in theory, is extremely difficult to curtail in practice.
- Right holders also see an increase of counterfeit shipments mixed with illegal parallel products. Such shipments have to be divided between originals and fakes or have to wait until the relevant procedure has been concluded. Storage and handling costs cause problems due to the increase in the volume of trade in illegal parallel goods and the fact that the party who should pay for the costs is often not known, nor contactable by the right holder or the authorities. In the absence of any responsible party, national authorities often put the liability for the storage or any demurrage costs on the rights holders, as they are the sole party available

Some submissions, while not opposing the deletion of the derogation, warned against certain risks:

- No legal change should blur the differences between counterfeit goods and parallel traded goods. Furthermore customs' focus should stay on counterfeit goods as they are dangerous and insecure for consumers. Any legal change has to assure that customs resources primarily are spent on fighting counterfeits. The derogation concerning parallel trade should be withdrawn as long as the customs authorities are provided with adequate resources to effectively combat parallel trade without

neglecting the combat against counterfeit goods. Another stakeholder expressed his concerns that customs authorities would not be equipped with adequate resources to deal with the likely dramatic rise of border detention cases resulting from the inclusion of parallel imported goods, thereby negatively affecting the effectiveness and thoroughness of customs controls of counterfeit goods.

- Should parallel trade be included in the scope of Council Regulation (EC) No 1383/2003, customs should continue to apply risk management for inspections and avoid to unduly hindering legitimate trade (contribution from carriers).

One company said that its key focus was counterfeits and did not have any strong wish that parallel imports be covered as well.

4.2 Submissions that proposed the amendment of the derogation to allow customs to disclose information to right holders.

Some right holders (5 submissions) advocated to maintain the derogation, but proposed to modify it in order to be able to make use of the information available to customs authorities concerning shipments of parallel goods:

One stakeholder recommended that the derogation concerning parallel trade should remain, but be amended to enable a rights holder to act on the basis of the information disclosed in such cases to pursue civil action.

In the same line, another one stated that increasingly, ‘counterfeit’ and ‘pirated’ goods are intentionally “mixed up” in the same channels as parallel trade (and indeed overruns). This complicates the issues and does make the job of customs and IPR owners more difficult. On balance, the existing derogation should remain, but it should be amended to enable a rights holder to act on the basis of the information disclosed by customs in such cases to pursue civil action to prevent the import and sale of such goods.

4.3 Submissions that were against the deletion of the derogation.

The main argument, contained in a submission that exclusively addressed the issue of parallel trade, was as follows: Quite simply, it is not appropriate for customs to be making a decision on these matters, particularly since parallel traders, who are not party to the previous agreements on authorizations to put the products on the market, can only guess (a) whether the agreement exists; (b) whether there has been a breach thereof; (c) whether the effect of this breach would be held by a court to affect the trade marks; and (d) whether the trade mark owner's rights have therefore not been exhausted. Only the national courts of the Member States can decide these questions on an individual bases, looking at the precise facts and circumstances of any consignment.

5. SCOPE OF THE REGULATION: “OVERRUNS” (Question 3.2 of the consultation paper)

Concerning the possible deletion of derogation of the so-called overruns, the outcome of the public consultation was:

- 34 submissions were in favor of the deletion
- 8 submissions proposed to keep the derogation
- 4 submissions proposed to modify the derogation to allows customs disclosing information to right holders

5.1 Contributions that proposed the withdrawal of the derogation.

The main arguments deployed by the 34 submissions advocating the deletion of the derogation concerning overruns were:

- As to overruns and other “goods which have been manufactured under conditions other than those agreed with the rights holder”, they are usually considered as counterfeit (in the broad sense) and not as “grey goods”. Hence, there is no reason to exclude such goods from the scope of the Border Measures Regulation. There is little difference in practice between overruns and counterfeit and pirated goods more generally.
- The current Regulation exempts from control counterfeit or pirate goods “which have been manufactured...under conditions other than those agreed with the right holder”. This is taken to mean that quantities of goods manufactured outside the terms of a license – so-called over-runs – are not subject to the Regulation. Thus, if a factory commissioned by the right holder to produce 50,000 DVDs, makes an extra 50,000 discs for sale on its own account, the additional discs are not regarded as pirate, even though they are plainly unlicensed and hence infringing.
- A footnote to Article 51 of the TRIPs Agreement provides: “[i]t is understood that there shall be no obligation to apply such [*i.e.*, *border measures*] procedures to imports of goods put on the market in another country by or with the consent of the right holder, or to goods in transit.” This evidently does not excuse the exclusion of over-runs from the Regulation, since such infringing goods are not put on the market by or with the consent of the right holder. The Regulation violates the TRIPs Agreement in its exclusion of over-runs.
- The derogation regarding so called overruns should be withdrawn. There is no justification for treating them differently from goods that have not been licensed at all. In most cases, overruns pose health and safety risks to the consumers since such goods escape from the quality control mechanisms, which the right holders have established for their licensed goods. The lack of quality controls creates the risk that the licensee who breached their license contracts – in an effort to increase their margins - produce overruns which are of a lesser quality and/or of a different composition than the licensed goods which are subject to quality controls. It is obvious that the interests of the intellectual property rights holder can be seriously affected by overruns, especially if they do not meet the quality requirements of licensed goods, thereby damaging the reputation of the right holder.
- There is a concern that some customs authorities have taken the view that if a factory has ever been licensed to produce genuine goods, then any future items will be considered an “overrun”.
- One respondent especially focused in the field of Plant Variety Rights, pointing out that violation of license contracts is a major problem. Where plants can be reproduced vegetatively – as in very many ornamental and fruit crops – no natural barriers for illegal reproduction exist and therefore PVRs are especially vulnerable for violation. Many licensees are located outside the EU (e.g. South and Latin America, various African countries, China, India) and these countries often do not provide for sufficient IP protection. Right-holders therefore have very limited options on ensuring the compliance of their rights on a contractual

basis in the countries where licenses are granted. So enforcement of rights often is only possible in the EU, especially via customs actions.

However, some contributions advanced possible risks of deleting the derogation. For instance, one of the contributions emphasized the difficulties that could be encountered by customs officers in determining whether an infringement has occurred; specifically, in determining whether a license applies.

5.2 Contributions that proposed the amendment of the Regulation to allow customs to disclose information to right holders.

Arguments put forward by the stakeholders:

There is very little difference between overruns and illegal parallel imports. Both relate to unlicensed goods and are therefore infringements despite the fact that there is not really a quality issue or one of deceiving the public as to origin. There should be an obligation on the customs authorities to inform the rights holder of the intended import of these products, with possibly a short detention period, so the rights holder can issue proceedings and seek an interim injunction if necessary. In addition, where goods are stopped by customs, whether in the belief that they might be counterfeit or under a right to stop overruns and illegal parallel imports, and information is given to the rights holder, the rights holder should be entitled to use the information to take action against the importer whether the goods are counterfeit, overruns or illegal parallel imports.

5.3 Submissions that maintained that the derogation concerning overruns should be kept.

The main reason to support maintaining the derogation within the scope of the Regulation was: Overruns represent not so much a violation of IP law as commercial contract law. By its very nature the product remains extremely difficult to identify by the carrier much less customs. The derogation should be retained.

6. SCOPE OF THE REGULATION: “TRAVELLER’S ALLOWANCE” (Question 3.3 of the consultation paper)

With regards to the possible derogation concerning non-commercial goods carried by the travelers within their baggage, the contributions to the consultation could be classified in the following way:

- 27 submissions proposed the deletion of the derogation
- 16 submissions proposed to keep it
- 5 submissions proposed to modify it.

6.1 Submissions requesting for the deletion of the derogation

The main general arguments in favor of the deletion were:

- It was stated that the Regulation currently appears to suggest that "a little bit of crime is OK". Clarity for customs and travellers alike was needed. Just as with other products that may be imported in personal luggage (drugs, CITES items, pornography etc.) if customs suspected that a traveller was carrying infringing items they should have the right to search for and detain any such goods. If infringing goods were found they may then notify right holders in the usual way. Given that most such seizures may be small consignments, a special simplified procedure should be included in order to reduce the administrative effort.

- Il serait incompréhensible que des autorités douanières nationales ayant démontré leur excellence en matière de lutte contre la contrefaçon soient privées d'outils larges et adaptés à l'évolution récente des procédés des contrefacteurs toujours plus sophistiqués et bien informés. Les marchandises sans caractère commercial contenues en petites quantités dans les bagages personnels des voyageurs, les dépassements comme le commerce parallèle doivent être éradiqués par tous les moyens.
- It was suggested that a provision be added to the Regulation stating that customs retain discretion as to the deployment of administrative resources in relation to the control of travellers' personal baggage.

Some of these submissions focused on counterfeit and pirated products and gave these arguments:

- Counterfeit products in any quantity, including in travelers' personal luggage, should be liable to seizure and destruction. A blanket "zero tolerance" approach should be taken.
- Regarding the small quantities of non commercial nature, the Regulation foresees a tolerance threshold that cannot be accepted so far as counterfeiting is concerned. Indeed, it induces certain persons to organise their trafficking by means of multiple private consignments containing small quantities of products with a customs valuation much inferior to the original price. This tolerance is the worst kind of signal, which could be given to producers of counterfeit articles in third countries. Such a tolerance cannot be justified either by a systematic control of persons at the borders, or by the free movement of persons. The free movement of persons and goods only concerns the Internal Market. One cannot envisage free movement between the Union and third countries.
- In a pharmaceutical context: derogation concerning small quantities of counterfeit goods should be withdrawn in its entirety, as this is in the interest of the individual's personal health and also a public health obligation (exceptions may apply for medicines that have been legitimately purchased in the country of residence or port of departure where a health risk from counterfeiting for the traveller himself can be ruled out); in a non-pharmaceutical context, this should apply to all products that present a potential health or safety threat. Seizure of articles may also be useful to obtain evidence in the context of further investigation.
- As part of the consumer awareness program on combating counterfeiting, consumers acting in bad faith must understand that trade in counterfeit goods is unlawful and that they should not buy counterfeit goods. Appropriate sanctions are required. Rights holders invest a lot of money in trying to educate consumers about counterfeited products. If the Regulation keeps considering the small consignments outside of its scope, the education/awareness raising campaigns are useless and the phenomena will never stop.
- The existing derogation sends the wrong message to consumers by implying that it is acceptable to purchase counterfeits for personal use. The demand in counterfeit goods is one of the key contributing factors to the counterfeiting problem. Keeping the derogation that ultimately allows the public to buy counterfeits without penalty is contradictory to the objective of policies, Regulations or laws to protect trademarks and consumers. It also gives the

impression to consumers that the government condones the purchase of counterfeits, which would have an adverse impact on future public awareness education efforts on anti-counterfeiting. Efforts should continue to educate consumers on the dangers and costs of buying counterfeits. Recommendation: the derogation concerning small quantities of goods of a noncommercial nature contained in travelers' personal luggage should be withdrawn and that efforts should continue to educate consumers on the dangers and costs of buying counterfeits.

- Goods of a non-commercial nature contained in travellers' personal luggage should not fall outside the Regulation: in cases where goods are relatively small but valuable, such as packaged DVDs, trans-border shipments of counterfeit goods and pirated goods are organized on a massive scale using travellers' personal luggage to cross European borders, hence introducing illegal products in the market. Also, keeping the derogation would send a wrong message to the customers about IPR enforcement, as duty free allowance applicable in most EU countries may represent the equivalent of up to 300 pirated low cost but good quality DVDs and therefore would permit the importation of large volume of pirate goods.

To avoid unnecessary embarrassment, one stakeholder suggested that funding should be made available to educate European Union citizens, including in airport and port arrival halls and that provision should be made for travellers to throw out counterfeit and pirated goods before they pass through customs barriers. Similar facilities exist in some airports for the disposal of imported fruit and other food. Criminal action is not necessary in relation to seized goods – rather, the traveller could be given a numbered receipt for the goods and 14 days to object to the seizure, following which the goods would be destroyed.

6.2 Submissions proposing to modify the derogation

Some stakeholders argued that the derogation should be kept but drafted in a different way:

One stakeholder argued that the use of the duty free allowance is inappropriate. It is suggested a positive wording of rule and exception instead of the current negative one in the Regulation to stimulate the authorities to take action: *Where a traveller's personal baggage contains goods of a non-commercial nature **within the limits of the duty-free allowance** and there are **no** material indications to suggest the goods are part of commercial traffic, Member States shall consider such goods to be **inside (outside)** the scope of this Regulation.*

Another respondent said that the negative wording of rule and exception could lead to authorities working too restrictively. If special circumstances suggest that goods inside personal baggage are part of a more comprehensive illegal trade, customs authorities should take action within the framework given by the Regulation.

6.3 Warnings on possible lack of effects of the deletion of the derogation

One respondent indicated that, *de lege ferenda*, the derogation should be withdrawn. However, considering the current derogations in the Member State laws on intellectual property rights (as well as in certain EU legislation such as the Community Design Regulation and the Community Trademark Regulation) concerning use in the course of trade/private use, such use would typically not be considered an infringement of the

rights covered by the Regulation, possibly with the exception of copyrighted goods in certain situations.

6.4 Submissions asking to keep the derogation.

Several arguments were provided within the contributions to the consultation to retain the derogation:

Some stakeholders stated that the removal of this derogation risked losing the support of consumers for the fight against the counterfeit trade, as customs (“the State”) and IPR owners (“Big Business”) could be perceived as interfering too much with consumers’ personal choice, considering that it would not be proper for customs authorities, on the basis of the Regulation, to remove personal items acquired by a traveller outside the EU and being imported for his own use.

According to the view of other stakeholders the derogation on small quantities of goods carried by individuals’ personal baggage should be retained in order to avoid customs authorities’ resources being diverted from dealing with larger consignments of a commercial nature. It would not be a worthwhile use of customs authorities’ resources to police such small quantities of goods brought in for such purposes;

In another submission it was admitted that the majority of right owners prefer not to take up too small quantities because of the costs of the actions concerned.

There was a submission exclusively addressed to this issue presented by representatives of the interests of the tax-free, duty-free and travel retail industry where it was stated that their supply chain are amongst the most regulated retail distribution systems. Consequently, they operate in very secure environment and possibilities for fraud regarding duty-free and travel retail supplied goods is minimal.

6.5 Lack of harmonization in the application and interpretation of the derogation.

Several submissions, some requesting the deletion and some supporting to keep it, indicated that Member States applied different practices, being the situation confusing:

- The current regime should be re-examined: the current Border Measures Regulation has been misused in various ways to send the wrong message not only to customs authorities and consumers but also to commercial enterprises. Some customs authorities have actively explained this provision as a sort of ‘free pass’ for travelers to buy and import infringing articles that would be illegal in their own country. It has been used as a way to engage in repeated imports of counterfeits. It also has been used as an excuse by commercial companies to encourage consumers to buy counterfeits, even via organized tours. This provision must not be interpreted to condone counterfeiting and piracy.
- Another stakeholder explained that the nature of this derogation could be clarified to avoid problems of interpretation as to whether the goods are for commercial or non-commercial use. Wording that permits the importation of levels of goods “reasonably attributable to personal use” might meet this end.
- According to one submission, on balance, the derogation should remain in its present form and should be consistently applied in each Member State. Further guidance is welcome to ensure that customs are consistent in their interpretation of goods of a non-commercial nature (e.g. as to the number of goods above which the import would be commercial, such as 2 or more goods of the same description).

- In one submission it was stated that, currently, some Member States take action against goods contained in travellers' personal luggage. Some Member States do not. Given the increasing level of travel within the European Union and the fact that transport routes no longer mean that travellers necessarily enter the European Union in their "home" country, the inconsistency of application creates difficulties for travellers who may be surprised by different laws depending on where they enter the European Union. Harmonisation is therefore to be preferred.

7. SIMPLIFIED PROCEDURE. (Question 3.3 of the consultation paper)

Concerning the simplified procedure, the results of the consultation were:

- 56 submissions stated that it should be compulsory and directly applicable for Member States
- 3 submissions asked to maintain it as optional
- 3 submissions proposed to delete it

7.1 Submissions asking for a compulsory and directly applicable simplified procedure

The view of many right holders was that the simplified procedure introduced by the Council Regulation (EC) No 1383/2003 is a very useful tool, as it provides for a quick and cost effective destruction of counterfeits. To support their request of having the simplified procedure as mandatory and directly applicable in all Member States they provided the following arguments:

- Frequently right holders are faced with an importer/owner/declarant which: (1) fails to respond to a request for consent to abandon the suspect goods; and/or (2) gives false contact details, so cannot be contacted at all. In both cases, the administrative, and financial (storage etc.), costs for both right holders and customs increase exponentially. Summary destruction, within a suitable period, would reduce spurious court cases (and thus not tie up costs, time and resources) and reduce unnecessary storage in customs warehouses.
- This procedure has the credit of allowing for the destruction of the goods when there is no declarant on the concerned national territory against whom the right holder could lodge a complaint. This solution enables to quickly solve the customs case and at a reduced cost.
- Although a judicial procedure is important if a claim is disputed, in practice the proportion of seizures challenged is very small. In the vast majority of cases the dealers concerned know or suspect the goods are fake, and abandon them when they are seized. The simplified procedure is therefore of huge practical importance, and needs to be improved.
- It has been a successful tool in the practical management and handling of "clear cases" of infringing and therefore illegitimate goods found by customs. The procedure would be more effective as it would not enable infringers to choose the country of import or transit so as to escape the risk of the simplified procedure. It must also be borne in mind that shipments of clearly illegal goods are not likely to be reclaimed by the infringers and, lacking a counterpart, the

obligation of going through a full legal case might further deter the legitimate fight against IPR infringers including counterfeiters.

- Shippers papers accompanying counterfeit goods often contain wholly inadequate or false contact details for the parties involved (e.g. importers and agents). In almost all cases, this is an intentional act aimed at frustrating the rights holder's ability to obtain a response when seeking consent in accordance with Article 11. In recognition of this, any revision to EC Regulation 1383/2003 should make it clear that consent shall automatically be implied from a lack of response from the declarant or other interested party, including situations in which the contact details provided are inadequate or incorrect.
- Stakeholders have already experienced lots of difficulties in handling counterfeiting cases in countries where there is no simplified procedure – in such cases: (1) legal proceedings may last several years: this allows the counterfeiters to continue their business and to adapt when necessary (organize their insolvency and disappear). It is often too late when the court finally reaches a decision that the goods be destroyed: in the meantime, large amounts of other counterfeit goods may have passed through the borders and caused damage to consumers and right-holders; (2) huge costs for the right-holder: lawsuits are expensive and the costs can become huge where there are repeated cases.
- Only few objections were made by importers to destructions in the framework of the simplified procedure, thus showing that considerable unnecessary legal proceedings have been avoided since the introduction of the simplified procedure.

7.2 Advisability of restricting the simplified procedure to counterfeit and pirated products.

Several contributions argued that the simplified procedure should be compulsory and directly applicable in all Member States related to counterfeit and pirated products and "clear cases". One stake holder that had suggested to take out patents, supplementary protection certificates and utility models of the scope of the Regulation, stated that if (contrary to his recommendation) those IPR were to remain within the general provisions of this Regulation, then a derogation from the simplified procedure should be considered.

7.3 There is room for improvement with regards to the current procedure of the simplified procedure.

The submissions that supported the mandatory and direct applicability nature of the provisions governing the simplified procedure, also proposed to streamline it. One contribution stated:

Article 11 of the current Border Measures Regulation provides that, in those cases where the Member States decide to implement the simplified procedure, the goods shall be destroyed when “the declarant, the holder or the owner” thereof has agreed to give up the goods for that purpose; the agreement of the holder, declarant or owner of the goods to proceed with their destruction shall be presumed to exist when “the declarant, the holder or the owner” has not specifically opposed their destruction within 10 working days (or 3 working days for perishable goods).

It is unclear whether the simplified procedure requires the rights holder to send a letter to the declarant, the holder *and* the owner of the goods asking them to give them up for destruction, or whether the rights holder can merely produce the written agreement of any one of them (without there being any requirement for the rights holder in such case to contact the other parties) for the destruction to go ahead. Customs authorities in some Member States do require proof that all parties have been contacted. We suggest that this requirement is too strict, especially since, in many cases, the identity of the owner of the goods and/or the declarant or holder thereof is not known.

Neither does Article 11 of the current Border Measures Regulation specify as from when exactly the consent from the declarant, holder or owner of the goods can be presumed to exist. Thus, for example, the Regulation suggests that consent should be deemed to exist after 10 working days, even if the declarant, holder or owner of the goods was only contacted after 8 or 9 working days of receipt of the notification of action by customs authorities. The new Border Measures Regulation should preferably state that the declarant, holder or owner of the goods should be contacted at least 3 working days prior to the expiry of the 10 working-day period, in order to ensure that the declarant, holder and/or owner of the goods has sufficient time to respond.

Similarly, the declarant, holder and/or owner of the goods can wait until the very last day of the prescribed period of 10 working days to notify customs and/or the rights holder that they oppose destruction. In such a situation, the rights holder ought to be given sufficient time to prepare and initiate legal proceedings. Whenever the rights holder is notified of the opposition of the declarant, holder and/or owner of the goods to destruction less than 3 working days prior to the expiry of the 10 working-day deadline, the rights holder should be granted an additional 3 working days to initiate proceedings.

Another submission warned against the possible legal risks of the simplified procedure for right holders where legal proceedings took place after the destruction of the goods. It was proposed that the destruction of the suspected infringing goods should take place on the assumption that they were abandoned and not on their IPR infringing nature. Simplified destruction is highly desirable for goods which have been seized under the “direct seizure” procedure, which implies that, regardless of the quantity seized, the seizure will not give rise to an investigation in order to ascertain the identity of the counterfeiter. In all other cases, and despite the procedure to take samples, it seems hazardous to recommend a simplified destruction procedure because of the risk, on the day of trial, that the defendant could challenge the counterfeiting nature of the goods, which have been destroyed without a contradictory hearing, and he might be released and even require compensation for the destroyed goods.

7.4 Submissions proposing to keep the procedure as optional for Member states

This was proposed as the wording of existing Article 11, allowing destruction “without there being any need to determine whether an intellectual property right has been infringed”, is seen as being a potential threat to legitimate third party interests. While it may remain as an option for Member States to implement in their national laws with adequate safeguards, the respondent would not support it being made compulsory in all Member States.

One stakeholder proposed a different approach: Les entreprises estiment que la procédure simplifiée est un outil pratique mis à la disposition des autorités douanières. Dans ce cadre, la possibilité de son utilisation devrait non seulement ne pas être supprimée mais encore être imposée à l'ensemble des Etats membres comme outil supplémentaire mis à leur disposition. Ceci ne signifie pas pour autant une utilisation systématique mais bien plutôt une possibilité qui leur est offerte, le cas échéant.

7.5 Submissions proposing to withdraw the simplified procedure

For these stakeholders, the simplified procedure should be deleted. To support this opinion, they argued as follows:

- Destruction of 'counterfeits' within ten days from notification to destruction is too speedy, especially if goods are in transit and the party being notified as having potentially violated the Regulation is in a third territory. This simplified procedure constitutes an imbalance in the Regulation between the capacity of private rights holders to make a claim of violation and the alleged infringers to seek recourse. Furthermore, one should take into account that there is some precedent in the context of trademark infringement to remove the offending mark and then release of the products for sale (or distribution to charity) before destruction to avoid economic waste.
- The power of customs to destroy goods, which have been seized without any evidence that they are infringing is unacceptable and flies in the face of natural justice.

7.6 The position of intermediaries with regards to the simplified procedure

Certain right holders considered that intermediaries had to cooperate fully and immediately to prevent any liability on their side. Intermediaries would also benefit from the implementation of the simplified procedure, as it would allow for storage costs to be reduced. The Regulation should also provide such intermediaries with a legal title that superseded a confidentiality or contractual obligation.

The position of the representatives for the postal and courier services was as follows: that a postal operator could never be considered as a declarant, holder or owner of postal items sent by and addressed to third parties. Postal operators therefore could not authorize (or oppose) actions such as those mentioned in article 11 of the Regulation. For postal operators, based on applicable international and national legislation and their responsibility and accountability towards senders, addressees and other involved postal operators, the objective was to ensure that there would be no adverse effect to their business or reputation.

Certain respondents considered that the legal basis for the current treatment of abandonment of goods for destruction under Article 11, when "the declarant, the holder or the owner of the goods has not specifically opposed destruction", could lead to different interpretations by customs. It was argued that the mechanics to facilitate abandonment should be reviewed to establish consistent practice in the event that the simplified procedure becomes applicable to all Member States.

8. SMALL CONSIGNMENTS (Question 5 of the consultation paper)

With regard to the possible introduction of a special simplified procedure for small shipments, 40 submissions were in favour of such procedure, although there were

significant differences in the respondents' approach and 7 submissions opposed to a specific procedure for small shipments.

8.1 Submissions supporting the introduction of a new simplified procedure to deal with IPR infringing goods within small shipments

Many right holders would welcome the introduction of a "new simplified procedure" to deal with small consignments or sales of IPR infringing goods via the internet, which did not require rights holders to be directly involved and where infringing goods could be destroyed when the importer did not oppose.

8.1.1 The arguments deployed in these submissions were:

- Rights holders have identified an increasing trend towards small consignments of counterfeit or pirated goods, usually entering the EU through the postal service or via a commercial courier company. Counterfeiters are now able to send high volumes of parcels, on a weekly basis, to various addresses, without these items being detected or detained by the customs authorities. Over time the counterfeiter is able to ship thousands of products, at a small cost, without detection. This trend is the new supply/traffic channel of choice for counterfeiters and is particularly linked to internet sales.
- The resources required of both customs authorities and IPR owners to stop, seize, store, examine and destroy these goods may be disproportionate to the value of the goods for both customs authorities and IPR owners.

8.1.2 Concerning the procedure itself, there were some proposals from the stakeholders:

With regard to the possible scope of this procedure, some submissions proposed to apply the procedure to small consignments and goods contained in travellers' personal luggage, while others proposed it should only apply to small consignments sent by post or courier services.

In one submission the following procedures were suggested:

- Small consignments of counterfeit goods imported by travelers in their personal luggage: the customs authorities could offer them the possibility of abandoning the infringing goods for destruction in exchange for immunity from civil and criminal sanctions. Should the goods be counterfeit, it is unlikely that the travelers will refuse such an offer. Only if the traveler refuses to accept this offer, the right holder would need to get involved. The right holder could then either confirm the counterfeit nature of the goods and initiate the regular procedure or release the goods.
- Small consignments suspected of being counterfeit imported by post or courier: customs should have the power to preliminarily seize such consignments based on their own analysis of the goods. The addressee of the goods should then be notified about the preliminary seizure. The onus would then be on the party having a legitimate interest in the consignment (usually the addressee) to oppose the seizure, within a given period of time (for instance within seven days). If the seizure is not opposed in time, the goods would be destroyed under the supervision of the customs authorities. It is only if the seizure is opposed that the right holder would get involved according to the usual procedure.

In general, those in favour of this new simplified procedure, also advocated to introduce the presumption of agreement to destruction where the concerned parties did not react to notifications from customs. For instance, one submission stated that for items sent

through the postal service or by commercial courier, there will be a readily identifiable recipient at a readily identifiable address. A simple notification to that address to the effect that customs have impounded suspect counterfeit goods should therefore be practicable and cost-effective, and, if the recipient does not respond, the goods may be destroyed. As with the simplified procedure, it was recommended that the Regulation include a standard format notification to be used by customs.

8.1.3 Role of the right holders and extent of their involvement in a new simplified procedure.

It was proposed that this procedure would be applicable where customs applications were in place. One submission stated that the setting up of a new simplified procedure should not disregard the intervention of the IP right-holder. The latter should be informed of the procedure being applied and his/her consent –a general or a particular consent, in the moment of applying for intervention- should be taking into account

Concerning the identification of the IPR infringing goods, there were different views: while some proposed that there would not be any need to determine by the rights holders whether the goods are counterfeits, others indicated that the procedure would be subject to the sole confirmation by the rights holder of the infringing character of the goods (the rights holder should have then the choice whether or not to initiate court proceedings to have them destroyed)

8.1.4 Provision of information by customs to right holders

Many right holders requested to have the right to be informed by customs if this new procedure was established. Some submissions stated as follows:

- Manufacturers should have the right to be informed about the seizure of such consignments and on request, inspect and analyse the products suspected of being counterfeit (for health reasons, including potential product recalls) but manufacturers would be encouraged to waive such right of information and inspection in order to keep administrative burden low.
- Right holders should be granted the option to be informed in cases where small consignments were repeatedly made by the same declarant, holder or owner. Detaining a multitude of small consignments from the same person would reveal that this person conducts substantial infringement of IPRs.
- Small consignments were broadly used by third parties located outside Europe to distribute counterfeit products in Europe. Repetition of consignments of infringing goods by the same owner, holder (or declarant) should be registered and such information should be provided to the right-holder for further action or investigation. The repetition of small consignments of infringing goods by the same owner or holder would indicate a significant IPR infringing business. Particular scrutiny of further consignments should be conducted.
- Rights owner should have some kind of overview about the cases in order to know the quantity and the type of goods that have been intercepted in a certain time period and they should be informed if the same persons were repeatedly found to be active in connection with small consignments, indicating misuse of IPRS which went beyond a private scale.
- Customs would need to inform rights holders in monthly or quarterly reports of the number and type of goods seized and destroyed, and the details of the infringer. Often one person repeatedly, within a month or two, imports a small quantity of

counterfeit goods. Therefore, when the infringer was later prosecuted, such customs reports of the activities of the infringer – in the past – would be valuable evidence.

- The practice of this new procedure should not disregard the possibility to investigate a more structured or a great-scale trafficking behind small consignments.

8.1.5 Definition of small shipment

There were many proposals and views about a possible definition of small shipments:

- This could cover the size of parcels as well as their weight. The typical example would be a weight limited to 2 kilograms.
- There was a need to define “small consignments” based on specific criteria different by product categories (e.g. for packages containing sport articles: fewer than 3 to 5 items OR less than 200 euros in value).
- The introduction of the possibility for right holders to limit the scope of customs applications and determine thresholds below which the customs authorities should not intervene, should be welcomed. Such thresholds could be based for example on the value or quantity of the imported goods, depending on the type of the products at issue. In another contribution it was said that the rights holders could be given the opportunity to indicate in their applications for action by customs authorities a minimum quantity of goods under which they would not be prepared to initiate court proceedings if the declarant, holder or owner of the consignment refused to give them up. When the number of items contained in the consignment does not reach the threshold indicated by the rights holder, the consignment would be considered a “small consignment” and customs would still have the option to deal with them under the above-mentioned simplified procedure.
- The system should rather apply to packages sent using the national postal system or any national courier service. Or, as another submission said, due to the unlimited size and value a shipment may take, the focus should be on a new procedure for “postal” consignments instead of “small” consignments.
- Small consignments could be defined as anything capable of being sent by regular mail or regular express carrier service.
- Small consignments may be defined as wide as possible as the circulation of goods is multiform today: commercial and non commercial goods that are: (1) sent in small quantities; or (2) sent by private persons to other private persons; or (3) sent by any company to a private person or another company or organization in small quantities; or (4) carried or found in possession of a private person.
- The concept of small consignment should be defined, for example, as "a consignment of less than 10 articles."
- It could be defined as any consignment having less than 20 items. For tobacco products, “items” should be understood as packs.
- Dans ce cas, la définition envisageable pour la notion de petit envoi devrait être la même que celle de l’Union Postale Universelle, à savoir : «tout objet expédié, via lettres, colis et EMS, et transporté par l’opérateur désigné de service universel aux conditions de la Convention postale Universelle et des Règlements de la Poste aux lettres et des Colis postaux ».

- The definition of a small consignment should include the equivalent of one DVD (size, weight and price ≈10€). Small consignments should include one single product.
- The definition needs to be based on such criteria as quantity or value of seized items; for instance, up to five items of one type in one package (or sent to the same address or person within 3 months), or up to 1000 EURO. Infringers often import small quantities of counterfeit goods, at short intervals, in an attempt to avoid detection by customs officers; including the requirement of “short intervals” in a definition of small quantities could assist in ending the practice.
- From the point of view of the spirits industry a small consignment could be defined as a 9 litre case.
- Another submission defined "small" and "consignment":
 - (a) “Small” –any guidelines should encompass both value and number – for example, fewer than 5 items *or* items with a total value of less than €200. This would include, for example, a consignment of 5 counterfeit watches (which may have a value in excess of €200 at full, genuine, prices) as well as a consignment of 1000 stickers or other packaging elements which, on their own, would be valued at less than €200, but which, when later combined with other packaging elements, or the goods themselves, may have a significantly higher value. We consider that the use of “or” in the definition, rather than “and”, creates the appropriate balance between consumers’ rights and protecting rights holders. We do not have strong views on the actual numbers - in reality there is unlikely to be significant practical difference between 5, 10 or 20 items. The value, if included, should be monitored to ensure that consignors are not artificially inflating the declared value to €201 in order to avoid any small consignment procedure; and
 - (b) “Consignment” – there should be two elements to any guidelines. First, a consignment, by its nature, is a single collection of items. Consignment should involve the notion of a single package. Second, consignment should be limited to packages sent through postal or commercial courier services.

8.1.6 Cost of destructions

There were different views on who should face the cost of destruction of small shipments containing IPR infringing products:

One respondent indicated that it was not appropriate for the rights holder’s indemnity to be called on or the rights holder to be asked to pay the costs of destruction in circumstances where it had not been consulted about the destruction. Some consideration could therefore be given to notifying the rights holder at the same time as the recipient of the goods is notified. At that stage, the rights holder could choose to do nothing (but its indemnity may be called on or it may be asked to pay the costs of destruction) or it could inspect the goods to satisfy itself that they were counterfeit/pirated. If the rights holder was notified, it would also be able to build up a picture of infringing conduct to assist in further anti-counterfeiting measures. Another submission indicated that the cost of destruction of small consignments should be paid by the State Treasury.

In another contribution it was said that in case of obvious counterfeits the goods should be seized and destroyed at the cost of the addressee.

One submission stated that the destruction of infringing goods should not be at the expense of the carriers. Any procedure for destruction under customs control should have no impact on speed, processes and administration of the carriers.

8.1.7 Concerns with simplified procedures

Without opposing to a new simplified procedure for small consignments, some stakeholders expressed some concerns.

One respondent indicated that a new procedure to deal with small consignments would be of interest provided that such a procedure would not divert resources from larger consignments being investigated by customs.

One respondent indicated that importation of IPR infringing goods in small consignments was often made by individuals (by way of purchases on the internet, or by travellers returning from holiday destinations where commerce with IPR infringing goods is wide-spread). Under IPR substantive law in EU and the Member State where the respondent is established, in such situations, the right-holder often has no valid cause of action since the importer in most cases can rely on a private use defense. Accordingly such simplified procedure would only be relevant in relation to imports of small consignments where it could be established that the import was part of commercial traffic. This could be the case e.g. where commercial intermediaries imported such small consignments or where there was a pattern of conduct on behalf of the importer.

8.2 The position of postal and courier services

The views from these stakeholders on a possible new simplified procedure, which would have a direct impact on their economic activity:

- "At this stage we would counsel against oversimplification of the issue of the distribution lanes and modes used for transportation of IPR infringing goods arising from the internet. The perception that this is "usually distributed by postal or courier" services based upon the size of consignment is dangerous and implies that somehow either provider is complicit in the criminal act. We question the outcome of customs seizure statistics supplied, unless it can be proven that targeting of these services was matched by equal focus on other logistics modes. The methods of handling international consignments, and the governing international rules, differ markedly between "postal" and "courier" and this affects the ability of customs to manage throughput.

Any new procedure for small consignment should be adopted after taking into account the regulations and constraints of express and postal business. For instance, the postal secrecy obligations prohibit in some cases the carrier from opening shipments at all. In this respect, consulting the express and postal sector is recommended to understand the reality of these businesses.

In principle, any new procedure shall be proportionate, efficient and transparent.

Customs should cooperate with express and postal carriers to apply risk management for inspections in order to avoid undue disturbance of legitimate trade. Stopping shipments or checking sender and addressee information must only be carried out at the specific request of the competent authority. The carriers shall not be obliged to do such checks proactively.

The destruction of infringing goods shall not be at the expense of the carriers. Any procedure for destruction under customs control should have no impact on speed, processes and administration of the carriers

- L'intéressé est favorable à une procédure spécifique clairement rédigée en partenariat avec le secteur postal, qui verrait la Douane, sur requête écrite indispensable, se faire remettre par l'opérateur postal, les marchandises portant atteinte aux DPI pour qu'elles soient détruites sous le contrôle des douanes.

Cet abandon entraînerait automatiquement l'abandon de la responsabilité de distribution découlant de la signature par les Etats membres de l'Union du traité de l'UPU.

Une preuve de suspicion de l'atteinte aux DPI (photos, échantillons, prélèvement) devrait être conservée, pour chaque marchandise, par les Douanes en cas de contentieux ultérieurs.

- The posts are not the holders of the postal items handed over to them for transport from A to B, in the meaning that they are in a position to decide what should be done with any postal items, allegedly infringing any third party's right. The concept of universal services (the obligation to serve all customers wishing to send a letter post or parcel post item to any address in the world, without the need to check the underlying motives for sending the item) brings along that the posts cannot act as law enforcers and take upon or share a responsibility vested to an authority within the public domain. From this point of view it isn't acceptable to change the current division of tasks in this respect.

8.3 Submissions opposing to the introduction of a new simplified procedure applicable to small consignments.

There were two main different lines amongst those who opposed the introduction of a new simplified procedure for small consignments. One submission stated that no new procedure should be envisaged. The Regulation should only apply to violations, which are at a commercial scale and for which there is a clear commercial benefit. There is a risk to public health of sales via the internet, but applying the customs Regulation to the sale of goods over the internet is excessive, poorly adapted and will deliver few results. To address the proliferation of some counterfeit products over the internet, resources should be invested by Governments to build consumer awareness of legitimate outlets.

Other submissions opposed to this procedure, arguing that commercial activity involving the sale of small quantities of IP infringing goods should be subject to the same regulation as larger scale infringement.

One submission said that 'small consignments' were a relatively new and growing way to avoid border controls. Anyone working in this field was aware that very often, small consignments were sent from the same sender to different addressee to try to reduce the detection of the goods. Bearing this in mind, 'small consignments' should not be treated as 'small quantities' but rather as single shipment between many, in a certain frame of time, linking two subjects. Considering the difficulty of providing a definition of 'small consignment', and the need to ensure repeated traffic was not covered by any derogations, the new procedure should not envisage special treatment for small consignment.

9. COSTS (Question 6 of the consultation paper)

9.1 Facts and figures provide by the respondents concerning costs.

The public consultation did not bring forward quantifiable data concerning costs of enforcing IPR at the border, but did reveal the extent to which stakeholders were concerned by the increasing costs raised in operating the Regulation:

- The storages issues (capacity and costs) represent a substantial obstacle affecting the effectiveness and efficiency of combating the counterfeit trade; this is equally true for both Governments and rights owners.
- As an example in one particular current case (outside the Union) storage costs are US\$1,200/month – surely these costs should be subsequently recovered from the entity from which the counterfeit goods were seized and these costs should be included as costs when the case goes to court.
- It will not be possible to produce an accurate estimate of charges for storage and destructions costs. The charges are raised through a variety of ports and storage facilities, the rates vary according to the nature of the product and size of the consignment, and there is no central record of charges levied for a specific purpose.
- In practice, storage and destruction costs can reach considerable amounts:
 - In Belgium these costs vary, depending on a) the place where the goods are subject to border measures, b) the procedure the right-holder chooses to follow-up on the detention, and c) the nature of the infringing goods.

It has been common practice that storage costs for the first (maximum 20) days have been covered by the carrier. Recently there have been cases, mainly at airports, where carriers or shipping agents claim a few hundred Euros for storing the goods a few days. To our knowledge right-holders have not paid these amounts.

Under the simplified procedure the right-holder will have to come up for the destruction costs. Sometimes the right-holder will organise the destruction himself (e.g. in Zaventem – Brussels airport) whereas on other occasions the authorities organise the destruction and require the destruction companies to invoice the different right-holders concerned at an amount depending on the quantities and the nature of the goods. Destruction costs are typically around 175 € a ton (for nonhazardous waste) with a minimum of 100 €. If a destruction certificate is required an additional fee is often charged.

In case the detention is followed up by a civil procedure the storage and destruction costs have to be advanced by the right-holder and can be claimed back from the infringer. As civil proceedings tend to last for at least one year the costs can pile up. In the harbour of Antwerp where entire containers are seized the storage costs can amount to 500 or even 1.000 € a month. For instance, in December 2009, an amount of 3.850 EUR has been claimed for the storage and destruction of 2600 infringing trolleys. In March 2010, an amount of 4.750 EUR was requested for 11.300 kg.

Where the detention is followed up by criminal proceedings the costs are usually at the expense of the State, although there is a practice (mainly in Antwerp) to ask right-holders to contribute.

The problem that the right holders are facing is that, in some circumstances, the customs are delaying the destruction or do not inform the right holders of the

possible storage costs and that these are claimed at the end of the proceedings which may last sometimes for months/years.

Customs authorities should at least be required to inform the right holders at the very beginning of the procedure of any specific costs that they may have to bear.

In Luxembourg there are reported cases where carriers have charged a service charge for storage costs and for arranging the destruction. In practice the price is “negotiable”. Sometimes horrendous amounts are claimed whereas in the end a few hundred Euros are paid. Destruction costs are typically around 175 € a ton (for non-hazardous waste).

The Italian Custom authorities do not request a reimbursement of costs to the right-holders. Usually destructions are carried out when storage is full, without separating the products, but preferably separating the type of material mainly for recycling purposes. A similar approach is adopted in Romania.

In Denmark the costs vary between DKK 1000 and 5000.

The new Regulation should encourage environmentally-friendly destruction processes, such as recycling, and allow infringing goods to be transported from one Member State to another, under customs supervision, for that purpose. Article 16 of the current Border Measures Regulation would, in such case, need to be amended to authorise customs to move the goods under their control from one place to another within the Community Customs territory for destruction.

- Currently, in Bulgaria there is big problem with storage of the seized goods on the customs, including but not limited to Svilengrad, Lessovo, Burgas customs, because of the long lasting legal action for obtaining of a legal act, which to give a legal ground for destruction of the counterfeit goods, the latter are in storage in the warehouses of the respective customs.

The amount of the fees for storage are legally determined in Art. 13 of Tariff for the fees collected by Agency “Customs” to Art. 12 of the Law for the customs, and the latter are calculates as follow:

"Art. 13. (1) The following fees shall be collected for storing commodities in warehouses managed by the customs bodies:

1. for storing in closed premises - per each calendar day - 0.35 levs per 100 kg or for a part of 100 kg;

2. for storing on open premises - per each calendar day - 0.20 levs per square meter.

(2) The fees under para 1, item 1 shall be calculated by considering the gross weight including the packing and pallets of the whole consignment.

(3) When the fees are calculated for a square meter the occupied area shall be obtained as a result from the longest length and width of the area on which the commodities are stored, respectively their packing and pallets. The result shall be rounded up to the next integer.

(4) Upon expiration of 10 calendar days, including the day of receiving the commodity in the warehouse, the fees under para 1 shall be collected in double, and after the expiration of 20 calendar days, including the day of receiving the commodity in the warehouse - in triple size.

(5) Fees shall not be collected for stored commodities in the warehouses, managed by the customs bodies in the following cases:

- 1. when the commodities have stayed in the warehouses before the customs inspection - for the days of carrying out the inspection;*
- 2. when the commodities have stayed in the warehouses due to a dispute with the customs bodies in connection with their customs registration - for the days until the settlement of the dispute and if the decision is in favour of the interested person."*

In case of long time lasting legal proceedings the fee for storage increase significantly, having in mind that subject of seizures, in most cases of transit, are thousand pieces of goods, loading hundreds of kilos.

Currently, Bulgarian legislation does not contain rules regarding the way of destruction of the counterfeit goods and amount of the fees for destruction. Therefore, for any case of destruction the latter is organized by the trademarks owners on their behalf.

- For 2009 (or for the financial period that principally covers the year 2009) two companies reported costs for EU27. Company A incurred costs of approximately 200,000 Euro for storage and eventual destruction of infringing goods. Company B incurred costs of approximately 600,000 for destruction alone.
- Chemicals by their very nature can be dangerous substances and such is the case for plant protection products. Once seized by an enforcement agency such as customs such chemicals need to be treated with a high degree of caution and only be handled by approved and trained people. Many of the seized plant protection products are labelled inappropriately whereby the hazards are not indicated, i.e. without skilled handling this can result in problems for the health of humans and for the environment. Often their containment is poor, and leakage and seepage occurred during transport. Generally, plant protection products' seizures are in the multi-kilo range often being several tonnes as it recently happened in Hamburg and Budapest. Once seized a critical health and environmental assessment needs to be made identifying all hazards and risks. Specialists, who are able to advice on the need for additional containment to effect movement to a secure site for further processing, are called, and destruction can only be effected in recognised incinerators where the temperature of the exit gas is about 1200 °C to avoid the emission of dioxins. In sum, storage and destruction of seized plant protection products can become very expensive.

9.2 Scope of the provision on costs.

The vast majority of the contributions (32) stated that the scope of the provision on costs of the Regulation should be limited to costs directly incurred by customs. However, there was not always an agreement on what should be understood by "costs directly incurred by customs". 4 contributions asked for a wider scope. Some of the statements and arguments from the respondents were as follows:

- Article 17 § 1 (a) Regulation 1383/2003 already anticipated that the treasury should not be affected by the border measures. The Regulation 1383/2003 stipulates in article 15 more specifically that the conditions of storage of the goods during the period of the border measures shall be determined by each Member State, **but** shall not give rise to costs for customs administrations.

With respect to other costs for the customs administration article 6 paragraph 1

confusingly stipulates: “*Applications for action shall be accompanied by a declaration from the right-holder,In that declaration the right-holder shall also agree to bear all costs incurred under this Regulation in keeping goods under customs control pursuant to Article 9 and, where applicable, Article 11.*”

The current wording of article 6 Regulation 1383/2003 often gives rise to disputes, because carriers in particular place a particular interpretation on the words "*all costs incurred*" and consequently claim payment of the storage costs from the right holder (before the carrier will release the counterfeit goods). The interpretation of the carriers is however not correct. In addition some Member States take the view that article 6 means that rights owners have to bear all costs under all circumstances. In our view, this is in contradiction with the spirit and meaning of TRIPS that costs for right holders should be minimized (see below).

TRIPS states in article 41 § 2, amongst others, that procedures concerning enforcement of intellectual property rights shall not be unnecessarily complicated or costly, or entail unreasonable time limits or unwarranted delays. This TRIPS obligation has been implemented by the Directive on the Enforcement of Intellectual Property Rights 2004/48 in article 3.

The European legislator has in accordance with the TRIPS obligation also abolished the possibility for customs authorities to require a security form the right holder, existing under the former Regulation 3295/94. It is important to note that the legislator explained that the new Regulation 1383/2003 abolishes fees and securities (and introduces instead the declaration of article 6 § 1), in order to allow right holders cost free access to the Regulation (COM 2003/0020).

The spirit of the above mentioned TRIPS obligation has also been included in article 17 Regulation 1383/2003 which states that the destruction of goods should happen in such a way as to preclude injury to the right holder.

Furthermore, the introduction of the simplified procedure in article 11 of the Regulation 1383/2003 should reduce costs and lengthy procedures.

The initial conclusion that can be drawn from the above is that the intention of the lawmakers for TRIPS and EU was and still is to indemnify the state from costs and to minimize the costs for rights owners and to create a user friendly enforcement system.

PROPOSAL: Change wording of article 6 from '*all*' costs incurred, into '*customs*' costs incurred..."

- For reasons of consistency, the scope of provisions regarding costs in the IPR customs enforcement Regulation should be such that it covers all costs incurred as a result of the importation or exportation of counterfeit goods. These costs should include, the costs incurred by customs authorities (e.g. for the supervision of the destruction), as well as other storage and destruction costs. There is no justification for drawing a distinction between the different costs since they all arise as a result of the importation or exportation of counterfeit goods.
- The reference to costs should be clarified to mean all administrative costs customs incur, such as sending samples to the rightholder by post. Beyond that they should be limited to this direct administrative costs incurred by customs authorities to avoid the usage of national provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member State where action has been taken 1) as

they are not uniform and 2) urge the rightholder to start additional and costly legal proceedings anyway.

- With a view to achieve an uniform solution in all Member States, it would be desirable that the Regulation 1383/2003 would contemplate any cost, and not only those costs incurred by customs authorities. This homogeneous solution would prevent infringers from profiting the most favourable regulations in certain Member States.
- Provisions regarding costs in the Regulation should indeed be limited to costs incurred by customs; the reference to costs should be clarified to mean the administrative costs that customs incur, such as sending samples to the right holder by post. Costs incurred by others should be dealt with in accordance with common provisions of civil and commercial law.
- The scope of the provisions regarding costs in the IPR customs enforcement should be limited to costs incurred by customs authorities inclusive of storage and destruction costs. All other costs should be borne in accordance with the common provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member State where the action has been taken.

9.3 The infringer should be liable for the storage and destruction costs of IP infringing goods.

Not surprisingly, there was consensus on the attribution of costs to the infringers:

- The cost of storage and destruction should be charged to the counterfeiters, as well as to the economic operators involved voluntarily in the trafficking of the fake goods. The subject liable for the costs should be able to get redress, according to the civil law in force in the Member State.
- The scope of the provisions regarding costs in IPR customs enforcement Regulation should be limited to the costs incurred by customs authorities, leaving other costs to be borne in accordance with the common provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member state where action has been taken. The responsibility, regarding costs of storage and destruction should be borne by the importer or receiver of the goods as listed on the customs documentation and not by the trade mark owner. These provisions should be set out without prejudice of the right of the person liable for costs to seek redress through the judicial system from any other party involved according to common provisions in force.
- In general, the infringer should be liable for the storage and destruction costs of IP infringing goods. This is currently not the position in the current legal framework. While this could be deduced from civil law, it would be clearer if the Customs Regulation itself placed primary responsibility for all costs connected to the interception, storage and destruction of the fakes on the infringer.
- The Custom Regulation should only be applied to goods, which pose a threat to public health or safety. All costs should be born by the offender. Intermediaries should not bear any responsibility regarding costs of storage and destruction. All costs related the enforcement of IPRs – which are purely private rights - should be borne by the right holder and should not be enforced through the Council Regulation.
- The costs should be paid by the person or business responsible for the infringing goods. There is no fee for the customs application today to help the small and

medium sized enterprises to be able to safe guard their intellectual property rights and to maintain the innovation. The problem arises when small and medium sized enterprises need to pay for storage and destruction, (indeed in practice a case could take years and result with huge storage costs for a business). To prevent this expensive situation, in practice it leads to rights holders releasing infringing products at borders. Rights holders are the victims of infringements and should not pay for the costs caused by infringers.

- The parties responsible for the infringement should pay the costs incurred in accordance with the common legal principles and the Regulation should not change those rules. However, in theory the infringer should be liable for all such costs. The Regulation does not mention this. While this could be deduced from civil law it would be clearer if the Regulation itself specifically placed primary responsibility for all costs connected to the interception, storage and destruction of the infringing goods on the infringer.
- Provisions regarding costs should be limited to costs incurred by the customs authorities. In general, if costs are to be borne by the side of the right-owner (e.g. for destruction) the message is that the victim has to pay for the consequences of the violation. The cost regime however should not be contrary to civil law provisions. Although the Regulation may not cut off damage claims in civil procedure arising from border interceptions it would be clearer if the customs Regulation did not contain a rule differing from responsibilities arising from civil law.
- However, in theory the infringer should be liable for all costs and we would prefer the Regulation to expressly place primary responsibility for all costs connected to the interception, storage, transport and destruction of infringing goods on the infringer
- The apportionment of storage and destruction costs within the EU Regulation 1383/2003 provides a serious obstacle to the effectiveness of the current regime. This burden appears to run contrary to past developments in EU law, whereby the requirement to provide security and pay application fees has been removed. It also runs contrary to Article 10, lit. 2 of Directive 2004/48/EC, which states that: “The judicial authorities shall order that those measures be carried out at the expense of the infringer, unless particular reasons are invoked for not doing so”
- The respondent also would welcome the specific inclusion in the Regulation of the ability for IPR owners to claim the costs of destruction from the consignee/owner of the counterfeit or pirated goods. At present, this is not clear or consistent between Member States. Preferably, any amount the IPR owner is required to pay to customs authorities should be enforceable as a debt in the courts of the Member States in the same way as, for example, OHIM costs awards. An importer of counterfeit or pirated goods risks those goods being seized and destroyed – the additional risk of the costs of destruction would appropriately place that burden on the infringer, rather than the IPR owner or the customs authority.
- The costs referred to in the Regulation should be limited to costs incurred by customs authorities, including in appropriate cases the cost of destruction. However the rights holder should be allowed to recover costs from those actively involved in the trade in the infringing goods (but not those incidentally involved such as innocent warehousemen or carriers) in accordance with the normal legal rules on liability as imposed by the courts.

- A respondent stated that the system which foresees the payment of the costs by the right holder is an incentive for counterfeiters to delay and hamper the judicial procedure. These counterfeiters are not taking any additional risk and know very well that the injury caused to the right holders will still be greater if they delay the procedures. In such circumstances, right holders tend to abandon the idea of any kind of customs' action, which demotivates all parties concerned by the fight against counterfeiting, from their own staff to the national customs authorities.

One of the solutions envisaged to remedy this problem would be to charge these costs to the declarant or the owner of the suspected goods directly.

Another solution would be to charge these costs to the transport company working for the counterfeiter/owner of the suspected goods.

Under such a system, one could envisage the possibility of automatically foreseeing the payment of these costs by the right holder in case of unjustified application for action. Thus, the customs authorities would be sure that the costs incurred for such an intervention would be paid, whatever the results of the procedure. Moreover, should the right holder who suffered the injury be proved right, it would not longer be impossible for him to recoup the costs incurred for such goods from a counterfeiter residing abroad. Such traffickers usually refuse to co-operate or even to communicate with the companies of the right holders or with the legal authorities in the import country after counterfeit goods have been seized at the borders.

A further advantage of such a system lies in the fact that it is in the interest of the defendant party to resolve the dispute as quickly as possible. Thus, the counterfeit goods can be quickly destroyed, freeing some space in the bonded warehouses which are often overloaded with counterfeited goods.

Another solution for SMEs facing infringement of their specific rights, like designs or copyrights, would be to foresee the possibility for the customs to confiscate and hand over the infringing goods (instead of destroying them) to the rightholder, to compensate its losses.

- A contribution went to say:
 - (i) We are not aware of any other crime where the victim is expected to meet costs which have been incurred as the result of others' wrongdoing. Our members have long campaigned for the infringer to be liable, in accordance with civil law provisions.
 - (ii) Article 6 currently provides that 'all costs' incurred are the responsibility of the rights holder but the scope of the provisions regarding costs in the Regulation should only include costs incurred by customs. Other costs should continue to be met by the parties found to be responsible for the infringement.
 - (iii) We suggest that clarity on this is desirable and refer to, and applaud, the approach taken by the European Parliament in its first reading of the proposed Criminal Sanctions Directive, whereby there should be "*an order requiring the infringer to pay the costs of keeping seized goods*" (Article 4(2)(h)). Details of costs incurred by rights holder

9.4 The liability of intermediaries.

9.4.1 The majority of IP right holders stated that, in addition to infringers, intermediaries should be liable on an objective basis.

In many contributions from right holders, it was stated that intermediaries should be to a certain extent liable for costs:

- The respondent is somehow baffled that the rights owner should be responsible for the costs of destruction and storage of goods which have nothing to do with them and which directly infringe their rights. The respondent considers that being responsible for the costs of being caught is a clear and simple deterrent. The carriers of counterfeit goods bear a closer relationship to those goods than the rights owner. Carriers will be able to back off their liability through their contracts with the infringers and their insurance provisions.
- The current regime places all the costs of storage and destruction on the injured right holder. There is evidently a pragmatic motivation for this, in that however unjust it is to impose the costs of crime prevention on the victim of crime, typically the victim is an easier source of money than the wrongdoer. However, this creates a disincentive for those facilitating the illicit traffic to take proper precautions, since the right holder has no practical recourse against the pirate vendor. The Regulation should provide that the costs of storage and destruction are recoverable from the consignor, and that in default of payment the carrier at the time of the detention shall be liable for the costs. No doubt carriers will insure against this liability and secure suitable contractual warranties (to the extent they do not already do so) from consignors. Evidently the costs recoverable by customs should not exceed those directly incurred by customs.
- For the right-holders it is already very burdensome that often they get only compensation for a fraction of their costs incurred by defending their rights (e.g. attorney fees) and also the rules on damages in national laws in many cases do not compensate for the actual damage incurred. Therefore the respondent suggests to maximally reduce the burden for right-holders regarding costs in relation with the customs actions and to ensure easy compensation procedures. All economic operators involved should be treated as jointly and separately liable debtors for these costs. Contrary to the right-holders these parties have contractual relationship with each other and selected their business partners. Therefore internal recourse is easier amongst them and it would be fairer to enjoin the burden of internal compensation on them. This also might increase the incentive for the parties involved to apply better diligence in ensuring compliance with IPRs.
- The current provision places all the costs of storage and destruction on the injured right holder. The Regulation should provide that the costs of storage and destruction are recoverable from the consignor, and that in default of payment the carrier at the time of the detention shall be liable for the costs. The costs recoverable by customs should not exceed those directly incurred by customs.
- Where possible the infringer should be liable for the storage and destruction costs of IP infringing goods. The current situation whereby the costs of crime prevention are placed on the victim of that crime is unjust. It also leads to legitimate companies having to pay for the destruction of products, which are nothing to do with them and which are potentially harmful – financially and physically – to consumers. The rights holders have not made them, or imported them, and are certainly not looking

to make money out them. Yet, they are expected to shoulder all the costs of their destruction. The respondent supports its members in the call for Regulation to provide that the costs of storage and destruction are recoverable from the consignor and that in default of payment the carrier at the time of the detention shall be liable for the costs. No doubt carriers will insure against this liability and secure suitable contractual warranties (to the extent they do not already do so) from consignors.

- The costs therefore should be borne primarily by the infringer. But facilitators of the illegal actions also have to be taken into consideration. Intermediaries such as carriers or storekeepers not only benefit economically by such trade but they are also the ones in a contractual relationship to the sender. Therefore they may seek compensation within this relationship. Intermediaries having knowledge of the infringement or being negligent with regard to the shipment of counterfeit goods should therefore not be excluded from the cost obligations.
- On the question of the costs of storage and destruction as regards third party intermediaries (such as shippers, carriers, consignors,...), we believe that the intermediaries should also be liable for the costs incurred. Shipping companies, for example, not only participate economically in such trade but they are the only ones in a contractual relationship with the sender and may seek compensation within this relationship.
- Any new Regulation should place the burden of responsibility on those who profit (intentionally or otherwise) from the trade in counterfeit goods. This includes all the economics operators involved (voluntarily or otherwise) in the international trade in goods that infringe IPR. To the extent that an operator's involvement (and therefore, profit) in the trade in counterfeit goods is involuntarily (or possibly unintentional), they are able to take steps to mitigate the risk of (i) becoming involved in the trade in counterfeit goods, and (ii) bearing ultimate responsibility for the costs resulting from the seizure, storage and destruction of counterfeit goods; for instance, via the imposition of indemnities in their terms and conditions of trade. Any provisions should be without prejudice to the right of the party, which is liable for costs to seek redress through the judicial system from any other party involved.
- Given the fact that carriers and forwarders are in a contractual relationship with the infringers, shippers and carriers should share the relevant liability. The current situation, far from undermining counterfeit traffic, actually facilitates it. Indeed, under the current regime counterfeiters and related crime organizations are allowed to ship counterfeited products anywhere virtually risk and cost-free. We have seen on several occasions that infringers can easily impose even higher costs on right holders due to the extra storage costs incurred due to a delayed procedure. A shared financial responsibility with a clear definition of the apportionment of costs will no doubt encourage intermediaries to be more concerned and ensure that like all responsible parties in international trade they take responsible steps in the fight against counterfeit. It will also engage them more proactively with the national authorities.
- The scope of the provisions regarding costs should refer to all administrative costs customs incur, but limited to them likewise. Primarily liable for these costs should be the de facto holder of the goods (like shippers, carriers or holders of customs warehouses) as they are able to contract with their customers on this.

- The primary responsibility for bearing all costs associated with the storage and destruction of counterfeit goods lies first with the importer. However, according to our experience, especially when larger consignments are involved giving rise to considerable storage and destruction costs, the importers of the counterfeit goods are usually either unidentifiable, untraceable or seemingly insolvent.

In the absence of an identified and solvent importer, the responsibility for bearing the costs should be imposed on the intermediaries that are, whether voluntarily or not, involved in the trade of counterfeit goods, such as shippers and carriers. Such an approach would help encourage intermediaries to conduct improved due diligence on those who seek to use their services, thus drastically limiting the possibility for them to transport counterfeit products from production countries to destination markets. The suggested approach would send a strong signal to this community that the overall objective to eliminate the illicit trade can only be achieved if all parties involved, including intermediaries, focus more closely on the issue and act responsibly.

It would be only once the first two options have been unsuccessfully exhausted that customs should turn to the right holder to bear the storage and destruction costs. The respondent would recommend that the current regime regarding the attribution of the costs be amended accordingly.

As set out above, the current regime regarding the attribution of the costs should be modified. The primary responsibility for bearing all costs associated with the storage and destruction of counterfeit goods, lies with the importer/owner of the counterfeit/pirated goods. Therefore, if the importer/owner can be identified and is solvent, the right holder must be in the position to recover the costs from the importer/owner according to damage compensation rules. Should the importer/owner be unidentified or insolvent, the right holder should have the alternative possibility to recover those costs from the intermediaries, including shippers and carriers. Similarly, any other party that is required to pay transportation storage or destructions costs should be able to seek redress through the judicial system from any party involved.

- Costs incurred by the storage and destruction of goods must not be born by the IP rightholder in case he/she initiates an action according to article 10, being the goods the object of a judicial proceedings and provided the judge decides the destruction of goods.

In these cases, costs incurred by the storage and destruction of goods must be born by the goods' importer, exporter, destinee or owner. For the case the latter cannot be identified or their liability to pay is difficult to exercise, costs could be born by intermediaries, such as shippers, carriers, consignors, customs declarants and holders of customs warehouses, jointly and severally obliged in case some of the those operators participated in the operation.

The payment of the expenses can not be born by the IP right-holders, who -besides the fact they are the victims of an infringement of their IP rights- have not participated in the trading of goods and, consequently, had no profit in the whole operation.

Article 6 of the 1383/2003 Regulation states a compulsory declaration from rightholders when an application for action stated in Article 5 has been submitted.

Similarly, customs authorities should request economic operators for an equivalent compromise to bear the costs of storage and destruction of goods for the cases where judicial proceedings had been initiated by the IP right-holder according to article 10 and goods were proved to be infringing an IP right and the judge decided the destruction of goods.

This compromise of payment should be necessary to become an Authorised Economic Operator.

Operators who are intermediaries should be able to claim any suffered prejudice to a former operator in a previous link of the liability chain. They should also be able to assure the potential risks of trading illicit goods by an insurance policy. Consequently, the operators could recover all the expenses incurred.

- Goods are detained at customs for all sorts of non-IPR related reasons. The costs of storage and destruction should be dealt with in the same way as in other areas of practice. Carriers are in the best position to contract with their customers about this and to pass on any insurance costs that insuring against the risk of incurring these costs entails where a customer defaults.

The costs of storage and destruction should not be under-estimated. While theoretically some such costs may be recoverable in court, given the difficulty in tracing defendants (who frequently give false contact details and/or simply do not appear in court) this is not always the case. Storage costs frequently run into thousands of euro, as can destruction, especially for products requiring specific environmental treatment.

Rendering liable the right holder alone for all of these costs is not only unfair – it does not make, transport or sell infringing goods and neither does it in any way profit from those actions - it is often enough to deter, or even prevent, SMEs from taking action. Given that it is now accepted that counterfeiting affects society as a whole, neither the right holder nor customs should be left with all of the costs.

In reality, it is the shipper/declarant (etc.), not the right holder, who is closer to the infringement. We therefore recommend that the Regulation should be reviewed so that intermediaries are joined for such costs; after all, they have received payment from the infringer/addressee (etc.) for moving the infringing goods and they have brought the items into the EU; right holders have not. The risk of cost should stay with the party that breaches the law.

While intermediaries, including shippers and importers, have no general obligation to check their goods, and may be carrying them involuntarily, if those goods are intercepted by customs and the right holder informs the intermediary that the goods are infringing and they do not give consent to destruction, they should be joined for costs. Their obligations towards their contractors and clients should not influence their obligations not to infringe the (IP) law. If the owner of the goods is unknown to the right holder and customs, the intermediaries should provide full and immediate cooperation in order to prevent any liability on their side. It often seems that shippers/importers take little care to ensure that the shipping documents are completed correctly (perhaps as they have received their payment in advance). This, in practice, causes a lot of problems as often the addressee in case of counterfeit items is (on purpose) not known or the address/name is wrong. The only way to force shippers/importers to take care of this is to hold them liable for moving IPR-infringing goods and also to be joined for the costs of storage and destruction. One

could also claim that the absence of correct information is negligence, for which the shipper (etc.) should be held liable. All of this can be dealt with in the contractual terms between the shipper (etc.) and its client and/or by industry-wide insurance.

Simply by opposing destruction of the goods, the shipper (etc.) forces the right holder to initiate legal proceedings. Under the indemnity form in Annex 1B, this also means that the right holder has to keep paying the - now substantially increased - storage costs as well as the eventual costs of destruction. Under those circumstances we submit that opposition to the destruction should be accepted only in case the shipper (etc.) is willing to issue a security/payment into court, which is sufficiently high to cover the expenses of the storage. Said security obviously would be refunded if the goods were released following a court decision in favour of the shipper (etc.). This payment would also give them an incentive to come to court (not always the case at present). In case such a security were not deposited within the specified time limits, the opposition would be dismissed and the shipper (etc.) assumed to have tacitly agreed to the destruction of the goods according to the simplified procedure.

- In principle, the infringer should be liable for all costs, and that the Regulation should expressly place primary responsibility for all costs connected with the interception, storage and destruction of the infringing goods on the infringer.

Neither right holders nor customs should be made solely liable for the often considerable costs of storage and destruction of infringing goods. Those intermediaries who are closer to the infringement, such as shippers and importers, should be required to contribute to the costs, and should also be required to cooperate with right holders if they are to avoid such liability.

By merely opposing destruction of infringing goods, shippers and importers can force right holders to initiate costly legal proceedings and to also assume liability for increasing storage and destruction costs. The respondent believes that shippers, importers, etc., should be required to provide security for these costs, which should, of course, be released or refunded if the goods are later released following a court decision in their favour. A failure to provide such security within the specified time period should result in a dismissal of the opposition to destruction.

The respondent believes that shippers, importers, etc., should also be required, where appropriate, to organise the destruction of infringing goods, rather than just right holders. If the right holder cannot or will not organise destruction, customs at least should do so. Small shipments could be gathered together and destroyed at the same time. It should also be possible for infringing goods to be sent to other regions of Member States or to other Member States for destruction.

9.4.2 Some of the IP right holders stated that intermediaries should be liable on costs only under certain circumstances.

These are the arguments employed by IP right holders:

- If the owner of the goods is unknown, intermediaries shall provide full and immediate cooperation in order to prevent any liability on their side. Once the identity of the parties involved is established ordinary civil rules apply both for reimbursement of cost related to storage and destruction (bearing in mind the right holder remains the applicant, and therefore may have to absorb the cost first).
- Active and immediate cooperation from intermediaries should be sought to provide all relevant information in order to identify the owner (or the sender) of infringing goods if they are unknown. Such cooperation would be required from intermediaries in order to prevent any liability on their side. Once the parties involved are identified, ordinary civil rules apply for the reimbursement of costs for storage and destruction.
- Es conveniente que se imponga a los intermediarios, tales como los importadores o transportistas, la obligación de constituir un depósito o fianza que cubra los gastos de almacenamiento en el caso de que se opongan a la destrucción de los efectos ilícitos. Simplemente al oponerse a la destrucción de los efectos, obligan al titular del derecho a iniciar un procedimiento legal, lo cual significa gastos adicionales de almacenamiento, así como los eventuales gastos de destrucción, por lo cual es razonable hacerles partícipes del gasto mediante la constitución de una fianza que sea suficiente para cubrir los gastos de almacenamiento. Si no realizan el depósito se entenderá que tácitamente consienten la destrucción de las mercancías. La fianza se le devolvería en el caso de que el tribunal fallara a favor del intermediario.

Con relación a la organización para destruir los efectos no son los titulares de derechos (que no son propietarios ni poseedores de las mercancías) los que deban ser obligados a organizar la destrucción sino los transportistas, importadores, remitentes o destinatarios. Si el Reglamento no se modifica en este sentido debería al menos declararse que la organización de la destrucción la realice la Autoridad Aduanera.

- The respondent would kindly requests the European Commission to consider that costs for storage and destruction should not rest on IP owners alone, but also on those participating in the transport of the goods (consignee, consignor or declarant, in addition to the holder of the goods, who is typically the carrier)) unless they discharge themselves of such responsibility by taking actions to effectively avoid transporting counterfeits.
- The respondent favours holding shippers, carriers, consignors, customs declarants and holders of customs warehouses responsible for IPR infringement where they knew, or ought reasonably to have known, that their services were being used to infringe an IPR. Therefore, where the costs of storage and destruction cannot be recovered from the consignee/owner, The respondent favours the IPR owner being able to pursue those knowingly involved in the infringement (or who ought reasonably to have known).

The respondent also favours these third parties being liable for the costs of storage and/or destruction if the third party objects to destruction, thus removing the ability of customs authorities to use the simplified procedure.

The respondent does not consider that placing this responsibility on intermediaries is unfair – rather, it is the intermediary who has had the most significant contact with the infringer and who has benefited financially from the infringement (by selling services to the infringer). The intermediary will be well placed to protect itself through insurance and/or contractual obligations with the infringer (including, for example, the right to pursue the infringer). The intermediary will also often have contact details and/or credit card details for the infringer, which will not be available to the IPR holder or to customs authorities.

Because of this latter point, in addition to holding intermediaries responsible for the costs of storage and destruction, the respondent also favours imposing on intermediaries an obligation to provide information about the infringer (as above). Restriction on the use of that information by customs authorities and the IPR owner should be removed.

9.4.3 The position of the intermediaries with regards to liability on costs.

The intermediaries presented submissions including counter-arguments to the position of the IP right holders on liability on costs. Although there were only 5 submissions from intermediaries, their input must be taken into consideration for a proper quality assessment of the situation as the issue clearly affects their business. That is why their contributions concerning their liability on costs of IPR customs enforcement are extensively reproduced here:

- Contribution A (Representing the interest of forwarders)

Who is Liable?

Forwarders are given information on the goods to be transported and are often only party to parts of the carriage of those goods. It is often the case that freight forwarders never actually see the goods physically but rely on the information that is given to them by the exporter/importer/carrier. Other than for customs declaration purposes, this information will often be provided in a generic format. No reference to the actual IPR owner is normally made. Forwarders or other service providers only have nominal information on the company, the type of goods and its destination; whether the transaction between importer and exporter/manufacture is legitimate or not will not be known by the service provider, who has no recourse to physical inspection of the goods either. No liability for IPR infringements can be laid at the feet of logistics service providers, who play no role in the sale transaction. Establishing the legitimacy of the underlying sale is the work of trained customs staff working within the boundaries of established procedural standards and rules, or the rights holders themselves with whom, as in much international legislation, the burden of proof of detained counterfeit goods lays, in fact it is often only the rights holder who can actually confirm the illegitimacy of the goods.

When acting on behalf of their principals, forwarders or other logistics or customs service providers are often required to provide customs with information for risk assessment, which is performed by customs itself and may entail action decided upon by customs or other competent authority; freight forwarders may have to execute customs decisions but they cannot take them in lieu of the customs.

From another point of view it is also unrealistic to try to commit logistics service providers and freight forwarders to tasks they are unable to perform. Even when they can physically check the goods, they cannot be charged with making an informed, legally binding judgement on the authenticity of those goods. This inability to inspect or

decide upon the legitimacy of the goods makes it impossible to attach any IPR related liability to forwarders and logistics service providers, as they have no way, practically or legally, of assessing the risk.

Indeed much international law gives rights holders the chance to actively promote the detection of any Intellectual Property Rights infringement. The WTO TRIPS agreement gives rights holders the ability to apply for the service of customs in tracking down and holding specific shipments of products that they think may infringe their copyright. The same applies in the current European legislation whereby a Rights Holder registers the Intellectual Property Rights of the product. For this 'service' it would seem right that, as most current legislation requires, rights holders pay for the service of storing those materials/goods that infringe on their Intellectual Property Rights or, eventually, destroy them.

As it happens IPR holders may try to defend their interests at the border, if they suspect their IPR's are at stake in a transaction they are not part of by requesting customs enforcement actions.

Private and public interest

There is another, possibly stronger reason why forwarders or those agents involved in the carriage, or part carriage of goods should not be charged for the breakdown of a private contract of which they have no part, or for the enforcement and upkeep of public safety, when this does not fall within their competence.

In this situation we should distinguish between two types of counterfeit goods at the border. On the one hand we have goods that are merely the subject of a private contract (such as DVD's, CD's, fashion and clothing items, etc.) On the other hand we have goods that, whilst also being the subject of a private contract, might become detrimental to the public good, for example: counterfeit medicines, foodstuffs, dangerous goods, etc.

If we look at these items in this way we have to ask the question, how far is customs supposed to go when dealing with counterfeit goods?

Without the ambition to properly deal with a subject that amply exceeds our remit, we wish to draw the reader's attention to the following facts.

There is a duty to deal with those goods that may be dangerous to public health and security, but should customs autonomously get involved in dealing with those goods that are under the jurisdiction of a private contract? In the first instance there is a binding social covenant for the customs to keep the public safe, for which the public pays; in the other it is the responsibility of those involved in the private contract to see out that customs act in their interest and protect their contracts. The latter cannot be considered a social covenant and must therefore be seen as an arrangement where the IPR holder is liable to face the costs incurred. Indeed to ask the state to deal with goods not harmful to the public means to transfer private interests into the sphere of state affairs.

There is obviously a grey area in that goods can be both a danger to public health and also the subject of a private contract. In this case at the most we could say that dealing with counterfeit goods at the border should be a negotiation between the holders of the private contract, the rights holder, and the customs acting on behalf of the state. At the least the responsibility should be shared between those who are involved in the private contract and the rights holders. This is the range of actions and responsibilities that

should define the limits of what is possible when dealing with counterfeit items at the border and is essentially controlled by how much danger or detriment there is to the public, the private contract being the constant while the element of public risk being the variable factor.

We can also see this in the light of who benefits from the detention, destruction and storage of the goods. If the goods are a danger to public health, or threaten to undermine the collection of duties and taxes, it is in the public interest that the goods are detained or destroyed and in this case it is understandable that costs are incurred on behalf of the public. If the benefit in detaining and destroying the counterfeit goods falls to the rights holder only (for example of CD's, DVD's, fashion items, etc.) then it is in the interests of the rights holder that the goods are detained, destroyed or kept in storage. These costs are then incurred on behalf of the rights holders, who should foot them and, if appropriate, seek compensation from the perpetrators of the illicit transaction. The forwarder, who, as we have ascertained, receives no benefit from the detention, destruction or storage of those goods, should certainly not be made to pay for this destruction or storage, for there is no connection between the forwarder, logistics service providers or other third party provider and the infringement of the IPR's.

Conclusion

- Forwarders or other logistics service providers

A) are in no position to check the genuine authenticity of the goods and there is no room to manoeuvre for them when extra costs are incurred in the form of storage or destruction fees;

B) cannot physically check the goods as their contracts do not allow the opening of packages;

C) receive information that does not allow for any 'educated guess' of the possibility of counterfeit goods;

D) are not able to recognise whether goods are contravening any Intellectual Property Rights (often only the rights holders themselves can make that recognition);

E) are not legally or physically able to have cognisance of the authenticity of goods, hence no risk assessment is possible for them.

On the assumption that an interest in case may attract a certain degree of legitimacy, it must be noted that forwarders, unlike rights holders

- receive no benefits for the seizure, forfeiture and destruction of counterfeit goods, hence should not be expected to pay for the cost of these, nor be required to accept any additional liability over and above their typical business liabilities;

- do not ask for the service of customs for the seizure, forfeiture and destruction of counterfeit goods, in order to uphold a private contract, and so should not be expected to pay for service that was not required by them.

Forwarders provide as much data that is asked of them, they do this knowing that this data is important for good Risk Management procedures. However providing data is as far as forwarders can and should go as regards IPR infringements at the border. Asking Freight Forwarders or other third party logistics service providers to get involved, in excess of the above due diligence, in the protection of the public (when dealing with publicly harmful counterfeit goods) or being responsible for a private contract of which they (or customs for that matter) are not party to is neither reasonable nor legally well

grounded.

- Contribution B (Group of companies providing postal and delivery services)

I. Introduction

The respondent supports efforts to take action against the violation of IPR and is engaged in a full cooperation with the competent authorities within applicable legal frameworks.

The primary liability of a third-party carrier in the case of an IPR infringing shipment is to provide information on that shipment when requested to do so by customs and other regulatory or enforcement authorities in accordance with applicable law. IPR offences are committed by shippers and/or consignees, NOT by freight forwarders and/or postal and delivery service providers.

In order to ensure complete cooperation with competent authorities, all divisions of the group apply the following measures:

- The companies of the group will not knowingly carry goods that infringe IPR. Where IPR infringing goods are suspected to be carried in the network, the companies of the group will fully cooperate with the regulatory authorities. The companies of the group have neither legal authority nor legal responsibility of IPR enforcement.
- Where IPR infringing goods have been identified and these are shipped by a customer with a variety of legitimate goods, the group company concerned will notify the customer the IPR infringing goods are not accepted for carriage
- Where IPR infringing goods have been identified and the customer produces or ships only IPR infringing goods, the group company concerned will close the customer account and inform other group companies accordingly

Furthermore, for all international and domestic shipments:

1. IPR infringing goods are not allowed in the group network;
2. The group companies will fully cooperate with regulatory and/or enforcement authorities where IPR infringing goods are suspected to be carried in the network;
3. The group companies staff are not to be involved in the determination of whether goods are IPR infringing or not; and
4. The group companies are to report all incidents where goods have been identified as IPR infringing or have been seized by the authorities for further investigation of infringing IPR.

The point 3 reflects the fact that a carrier cannot be responsible for validation of and compliance with IPR. It is not practically feasible to carry out checks on the huge volumes of shipments that have to be handled. Owing to national data protection regulations and postal secrecy obligations, the law, in some cases, prohibits the carrier from opening shipments at all. Additionally, our staffs have no expertise to identify counterfeit or pirated goods. Determinations about the status of goods in relation to intellectual property laws cannot, and should not, be made by employees of any carrier; that is the responsibility of customs and other enforcement authorities. Effective monitoring of compliance with the regulations can only be carried out by the authorities in the countries where the goods are produced.

The group is ready to fully co-operate with the competent authorities in order to improve the risk management of IPR infringement. Activities such as stopping shipments or checking sender and addressee information will be carried out at the specific request of the competent authority.

The principle according to which responsible third-parties, including in particular carriers and consignors, are not held liable for IPR infringements shall remain a cornerstone of national, European and international laws, including the Anti-Counterfeiting Trade Agreement. Ways of cooperation between the regulatory and/or enforcement authorities and third-parties should ensure that the legitimate trade is not hampered while the fight against counterfeiting based on risk management is being more successful.

II. Comments

In principle, the destruction of infringing goods shall not be at the expense of the carriers and consignors.

Carriers and consignors cannot be held liable in case of shipping infringing goods since in practice they are not able and qualified to check IPR conformity of the goods shipped. Owing to national data protection regulations and postal secrecy obligations, the law, in some cases, prohibits the carrier from opening shipments at all. Effective monitoring of compliance with the regulations can only be carried out by the authorities in the countries where the goods are produced.

In practice, today, the cooperation with customs authorities creates already substantial indirect costs for carriers and consignors. Inspection and seizure measures disrupt supply chain operations which cause important extra operations and administrative costs. Therefore, instead of creating new liability and costs for carriers and consignors, measures should be developed with the latter in order to minimize the disruption of the supply chain and the indirect costs involved due to IPR enforcement purposes.

To ensure legal certainty and an EU harmonized framework for IPR enforcement rules, it should be preferred that the provisions of Council Regulation (EC) No 1383/2003 regarding costs of storage and destruction of infringing goods cannot be affected by any national law in EU Member States.

- **Contribution C (Company providing postal and delivery services)**

La partie concernée héberge déjà dans ses centres les agents des douanes en charge des contrôles sécuritaires et subséquemment stocke à sa charge les marchandises saisies par les services douaniers. Le coût de stockage est déjà injustement assumé par les opérateurs postaux européens.

Une procédure qui impliquerait le partage des coûts (de stockage et éventuellement de destruction) entre tous les acteurs, y compris l'expéditeur, la douane, le titulaire de droit et le premier transporteur serait une solution équitable.

- **Contribution D (Company providing postal and delivery services)**

The company has taken notice of the concerns of rights holders with regard to the attribution of costs resulting from the storage and destruction of infringing goods, as provided for in the current Regulation.

The best method for cost reduction is to concentrate the action against IPR-infringers as close as possible to the source of the evil. IPR-holders have a prime responsibility in this respect. Of course the company will do whatever is within its competence to

prevent the exportation of IPR-infringing goods, but the instruments to do so are limited, in view of the Universal Service obligation we have to fulfil and also the principles of postal secrecy and confidentiality postal operators have to comply with.

It is important to note that the fight against counterfeit and piracy goods is high on the agenda of the major organisations in the postal sector of which the respondent is a member, the Universal Postal Union (UPU) and PostEurop. Not only the subject is discussed regularly in meetings of both organisations. On top of that high-level consultations take place between the UPU and the WCO, within the framework of the WCO-UPU Contact Committee, and it here as well that the postal sector demonstrates commitment for cooperation in fighting the trade in counterfeit and piracy goods.

From this perspective there is no ground for economic operators in the distribution chain, like the respondent, to accept any responsibility for the additional costs of storage and other treatment of IPR-infringing goods, that have been caused to enter the postal channel.

It seems logical that such costs become part of the claims that the directly injured rights holders file against the parties responsible for the marketing and trading of products infringing their IPR rights.

As storage and further treatment of IPR-infringing goods, often finally leading to destruction, in many cases not only serves the interests of IPR-holders (businesses) but is in the public interest as well (health, safety), the responsibility for organisation and implementation of such actions needs to be in hands of national authorities in first place.

In the Member State where the respondent is established there always has been good cooperation between the respondent and national customs and other border authorities, and its cooperation in the field of fighting the trade in IPR-infringing goods is no exception in this respect. Good cooperation is key for effective enforcement. The solution is not in the provisions of enforcement Regulation alone!

- Contribution E (Company providing postal and delivery services)

The situation that customs authorities find themselves in with reference to storage, investigation and destruction costs has been the subject of an ongoing discussion. The position of the respondent, as with the European and Global Express Associations of which it is a member, has also been publicly known for some considerable time. Any attempts of the rights holders to defray costs of storage and destruction onto other economic operators will be challenged rigorously.

Intermediaries involved in the fulfilment of the supply chain have clearly defined responsibilities and liabilities, often bound in legislation other than the EU customs law. These affect the whole extent of the international supply chain. They are also based in what can be reasonably expected from the various parties involved in the international transportation of goods.

Assumed liability for behaviour of the carrier in contributing to the injection of counterfeit material into the territory and jurisdiction of the EU is a dangerous precedent. The further assumption that the “holder” party to which extraordinary costs are defrayed has the knowledge or power to act at an earlier point than when the infringing material is presented for customs supervision is also erroneous. The carrier has no rights pertaining to the goods.

A further extension of the responsibility for costs into customs Regulation works

counter to the concept of customs-stakeholder partnership in dealing with criminal activity crossing international borders. An intermediary would think twice about bringing his suspicions regarding an infringement to customs if he thought that he would incur extraordinary costs as a result. The withdrawal of, rather than the increased, cooperation of logistics partners to the cause of the rights holders would be an inevitable consequence.

The right of the rights holders to seek redress from other parties through the judicial system already exists as a means of compensation. So the extension of provisions regarding costs for storage and destruction should not in our opinion be included in the IPR customs enforcement Regulation.

9.5 Some right holders stated that costs should be absorbed by the customs administrations.

The arguments used by these stakeholders were:

- When infringing goods are abandoned for destruction within the simplified proceedings (i.e. long term storage is not required and goods may be destroyed upon expiry of the period of 10 working days), the costs should be absorbed by the customs administrations, especially if customs organize the storage and destruction of the seized goods themselves as a part of their activities.
- We understand that EU Member States have no interest in using their national budgets for the storage and destruction of counterfeit and other illegal goods. However, when it concerns the safety of human beings it might be worth to reconsider this approach.
- Sharing the burden and the responsibility: the engineering industry should not fulfill the obligations of state authorities: While it is evident that it is in the rights owner's own interest to combat counterfeiters and pirates who infringe the rights holders IPRs, The respondent would like to point out that there is a joint responsibility to fight such illegal practices. State authorities need to ensure that EU consumers have access to safe products and that companies/persons who illegally produce or sell goods are prevented from doing so. Today's way of thinking, however, provides that the burden of responsibility lies on the rights holder, who is in fact the victim of counterfeiting and piracy.

Many rights holders, especially SMEs, do not agree that when cooperating with customs authorities it should be up to them to bear all storage costs of goods that are suspected of infringing IPRs and bear all costs for the destruction of goods that infringe IPRs. Within the EU, fighting counterfeiters is even more difficult since an "ex officio" procedure seems to be lacking. For many companies such obligations are more of a deterrent than a motivation to engage in the fight against counterfeiting and piracy.

If the rights holder is not in the position to travel to the port or airport at which the counterfeit goods were detected and is not willing to bear the costs of storage and destruction, the counterfeit goods are released and finally enter the EU market. Neither the customs authorities nor the market surveillance authorities "feel responsible" in such cases. This is an unacceptable situation for both the safety or users and consumers and the level-playing field conditions that all internal market operators deserve. For example we have seen that chain saws, pumps and valves for pipelines or for chemical plants, valves for nuclear power plants, electrical circuit

breakers, whole machines and installations and many other engineering products are today being counterfeited and pirated. In our view it would be justified that authorities deal with such products in another manner than with other simple non-dangerous counterfeit products.

- The Council Regulation (EC) n°1383/2003 states on one hand that the right-holder shall bear all costs incurred under the Regulation in keeping goods under customs control (Article 6 of the Regulation), and that Member States shall determine conditions of storage of the goods during the period of suspension of release or detention but shall not give rise to costs for the customs administrations (Article 15 of that Regulation).

On the other hand, Articles 16 and 17 of that Regulation state that counterfeit goods cannot be put on the Community territory, exported or re-exported, placed under a suspensive procedure or in a free zone or free warehouse and that Member States shall adopt the measures necessary to allow the competent authorities to destroy goods found to infringe IPRs.

There is some contradiction in stating, in general, that infringing goods cannot circulate anymore in the EU Territory and, in particular, that Member States must implement measures to destroy these goods and in the same time, giving the costs responsibility to the right-holder.

Since the destruction of infringing goods is an obligation for public authorities, then they should also bear all the financial costs of finding and storing infringing goods, which are necessary to destroy the goods at the latest stage.

This must be especially the case when the goods are harmful for the health and security of people. In that case, infringing goods become a public safety issue which must be managed by public authorities.

Moreover, relying on the sole contribution of the right-holder to pay for the storage and destruction of the goods could lead to inefficient combat of counterfeiting: the costs are sometimes so high that the right holder cannot afford these and so may be tempted to release the infringing goods.

The respondent recommends a framework where the costs are paid by the public authorities in case of confirmed infringing goods, and especially counterfeit goods. The public authorities may then quickly recover those costs directly to the infringer and all persons involved in the traffic (such as manufacturer, supplier, exporter, consignee etc). All persons that are accomplice must be jointly and severally liable.

If it appears that the assessment of the infringing nature of the goods by the right-holder was wrong and that he has destroyed goods that were not counterfeit, the party suffering the damage may of course ask the right-holder for compensation.

- From a general policy perspective, a respondent questions why not the customs should bear the costs in the same way as other costs for law enforcement typically are borne by the relevant authorities.

On a different line, one right holder expressly stated that the current system works effectively on balance, and that it would be unrealistic to expect customs authorities (i.e. the member state) to pay for the storage and destruction of counterfeit products as this would be likely to reduce the amount of resources available to deal with ongoing acts of infringement.

9.6 Requests on consistency and transparency around calculation of costs.

With regard to costs incurred in the enforcement of IPR by customs, some stakeholders requested more consistency, transparency and predictability:

- When the right holders are asked to sign the Declaration under Art.6 of the Regulation, they give an indemnity for a potentially large sum and for some right holders that potential cost dissuades them from making full use of the system. Our view is that the cost to be reimbursed by the right holder should be limited to the costs incurred by the customs authority. The recovery of any cost incurred by the company whose goods are detained should be a matter for the courts to determine to determine, based on their assessment of what is/ is not reasonable.
- It is necessary to emphasize that warehouse owners ought not to be entitled to calculate the costs of storage on the basis of the customs value of the goods, moreover not the market value of the goods. The costs of storage in a private warehouse should not exceed the costs of storage in a customs warehouse.
- The respondent would also welcome greater consistency and transparency around costs. There are significant differences between Member States (and within Member States, significant differences between ports) as to the costs passed on to IPR owners. These costs can be significant, so transparency on the calculation of costs is important to rights owners.
- Right holders should not pay for storage costs or costs of destruction. To meet today's requirements in the Regulation (together with variation in practice), it is almost impossible for right holders to predict with great accuracy the upcoming costs for one case. This is a great burden on right holders.
- In any case, the storage and destruction costs to be covered by the right holders should be reasonable and proportional to the value of the seized goods. It would be useful if the Regulation would set further guidance as to how this costs should be determined (including possible cap on such costs) and in which cases the rights holders would not be obliged to bear such costs (e.g. simplified procedure, donation of infringing goods for charitable purposes after trademarks were removed, etc)
- There ought also to be a published scale of costs of storage and destruction from the customs authorities, so all parties know what they are up for.

9.7 Contributions requesting that the cost of operating the Regulation should be kept cost/effective.

Some respondents included comments on this issue:

- Another question to be taken into account is that the costs of operating the Regulation should be kept cost/effective, i.e. avoiding the creation of a costly bureaucracy: a standard and efficient structure of the customs departments handling IPR enforcement should be uniformly defined, so that operating costs are kept as low as possible.
- The main principle that should be isolated, for clarity, is the one under which the right holder should be the first payer. This is coherent in the framework of Regulation 1383 when the goods seized cannot be linked to a counterfeiter identifiable through production or possession, and in the logic of simplified destruction in order to reduce costs, subject to the right holder's consent. It is therefore necessary for the right holder to be able to control the length - or at least to

be given a time frame before committing- during which the goods are retained and cannot be considered as evidence placed under a legal seal.

9.8 Contributions submitted by lawyers and professional lawyers associations.

These submissions highlighted certain technical aspects:

9.8.1 Contribution A

The costs concerned with the storage and/or destruction of (alleged) infringing goods should be preliminary borne by the right holder as the party who is requesting action by the customs authorities. However, the final distribution of costs should be determined under justification proceedings. A change of article 6 is required.

9.8.2 Contribution B

- Scope of the provisions regarding costs in the IPR customs enforcement Regulation.

At present, under Article 6 of the Regulation, the rights-holder has to agree to bear all costs incurred in keeping goods under customs control. In respect of any destruction under the simplified procedure of Article 11, the rights-holder must bear the expense and the responsibility for the destruction of the goods.

The respondent does not believe there is any need for the provisions regarding costs in the IPR customs enforcement Regulation to extend beyond the costs incurred by the customs authorities.

However, it is not clear from these provisions whether the rights-holder is entitled to recover the costs incurred by the customs authorities for which it is liable in civil or criminal proceedings. We believe that, at the very least, it should be explicitly stated that these costs can be recovered together with other costs in accordance with the common provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member State where action has been taken, even if they had been incurred as a consequence of the simplified procedure.

The respondent would also recommend that, in respect of these storage and destruction costs, the customs authorities should be given the power to make a costs order themselves against the importer in favour of the rights-holder as part of the simplified procedure, provided that these costs would not be payable in the event that the goods were found not to infringe. Such costs order would be enforceable as a judgment debt on production of certification by customs of the costs incurred. Assigning responsibility for the costs of destruction of infringing goods to the responsible party is not only fair but will serve to visit the infringer with the true costs of his conduct, and discourage future instances.

- Liability of [non-infringing] intermediaries.

The liability of [non-infringing] intermediaries for any relief was introduced into the UK by Article 11 of the Enforcement Directive which provides:

"Injunctions

Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. Member States shall also ensure that right holders are in a position to

apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC”

In the UK the question of whether this provision formed part of UK law was discussed in detail by Arnold J in *L'Oreal v eBay* [2009] EWHC 1094 (Ch). He found that it had not been brought into effect by legislation and did not have direct effect. However, he did find:

"454. Nevertheless, in the light of the general principles I have set out above, I consider that, if Article 11 requires that the grant of an injunction against an intermediary who is not an infringer, then that provides a sufficient reason for a court of equity to exercise its power to grant an injunction to protect an intellectual property which has been infringed. In saying this, I am not treating Article 11 as having direct effect; but as providing a principled basis for the exercise of an existing jurisdiction in a new way."

Under English law, any economic operators involved in the international trade of IPR-infringing goods who is found to be a joint-tortfeasor would be liable, jointly and severally, with the other tortfeasors for the costs. Accordingly, as long as it is clear that the primary infringers are liable for the costs of storage and destruction, so would any joint-tortfeasor.

The respondent considers that the issue of whether non-infringing intermediaries, who might not in all circumstances be found to be joint tortfeasors under English law should be held liable in for the costs of storage and warehousing is a difficult one.

The respondent is in favour of suitable injunctions being able to be granted against such intermediaries but it may be harsh to impose financial penalties on such intermediaries who may have been misled by their customers.

The respondent does note, however, that such intermediaries will be able to protect themselves contractually by operating on terms that they will not be involved by their customers in the international trade of IPR-infringing goods and obtaining indemnities (and insurance) from their customers against any such costs.

The respondent would favour greater responsibilities being placed on such intermediaries to obtain information from their customers about the nature of the goods being imported such as, for example, any trade marks or brands applied to the goods, and that, where goods are deemed to be counterfeit, the intermediaries be obliged to provide complete information and full disclosure to customs about the customer, the place of manufacture of the goods, shipping details etc. and that customs be given greater freedom to pass this information to right holders without the parties being able to hide behind confidentiality or data protection issues.

There is one further issue we would raise. Such intermediaries, who may be involved (even if innocently) in the importation of very substantial quantities of counterfeit goods and therefore assisting in money laundering, often on the part of organised crime, should have the Money Laundering Regulations applied to them, supervised by the customs authorities. If this is done, these intermediaries will be required to make proper ID checks and report suspicious activity to HMRC. Indeed this is a classic case for the rigorous application of the Money Laundering laws. These are applied across the board in areas such as the legal profession where money laundering occurs in very large part in specific areas. There can be no dispute that there are very large numbers of counterfeit goods passing daily through the hands of intermediaries, and that without

their involvement imports of counterfeit goods would be significantly curtailed. Concentrating on this area of commerce, where there is a certainty of innocent parties being used to facilitate money laundering, would be a very effective use of resources.

- Right of the person liable for costs to seek redress through the judicial system from any other party involved according to common provisions in force

The respondent considers that it should be made expressly clear that the rights-holder is entitled to recover the costs incurred by the customs authorities for which it is liable in civil or criminal proceedings together with other costs in accordance with the common provisions regarding civil or criminal IPR enforcement applicable in the territory of the Member state where action has been taken.

9.8.3 Contribution C

The standard laid down in the texts is that the IP right holder pays.

The respondent considers that the IPR holder should only bear the costs incurred by the customs authorities on the condition that he can control the duration of storage of the seized products and the means of destruction. In fact in too many cases the storage costs are exponential and depend on the slowness of the administrative or judicial procedures involved.

An alternative solution, which would facilitate the flow of seizures and descongestion of customs warehouses, would be to obtain rapid destruction of the seized goods with sample being retained at the expense of the IPR holder and to foresee an indemnification of the seized party and the customs authorities in case of abusive or unfounded seizure.

The importer or sender of the seized goods should fully assume all storage and destruction costs. In practice, the solution is difficult to apply especially when the sender is domiciled outside the EU or when the importer cannot be located as the addresses shown in the shipping documents are frequently wrong. Of course if the intermediaries know that the transported goods are counterfeits, their implication in the payment of the storage and destruction costs should be considered.

One could also imagine a sharing of these expenses by all operators who intervened in the routing of the counterfeit product from the sender to its final destination. This could in particular make them more responsible and thus limit the transportation of counterfeit goods.

Whoever is liable for these costs shall be able to seek redress via the judicial system.

9.8.4. Contribution D

(i) Scope of the provisions regarding costs in the IPR customs enforcement Regulation.

Costs, if applicable at all, should be limited to the costs incurred by the customs authorities. Many brand owners have expressed concerns about the growing costs of storage and destruction. Any clarification about “customs costs” should explicitly refer to administrative costs such as posting of samples, and exclude storage and destruction. However, it should not fall to the brand owner to pay given that these are not their goods.

(ii) Liability of intermediaries.

Some clients of the respondent have stated that storage and destruction of detained goods should primarily fall to the importer or exporter and if they fail to pay the costs

the carriers should pay it and then recover it from their customers pursuant to their contractual rights.

However, carriers are already under an enormous burden and do not have any knowledge of what is contained in the packages and so this would be a concern to carriers. Further, some carriers have expressed the view that this proposal is unreasonable and unworkable for a number of reasons, including:

- From the perspective of a carrier which is the intended final link (amongst what is typically a number of links) in the delivery chain, the originating poster of counterfeit goods from abroad is usually anonymous and rarely, if ever, in a direct contractual relationship with that carrier.
- Such carriers (including postal authorities) will therefore not have protection in the event of being required to bear storage and destruction costs around counterfeit goods – whether as a matter of contract or postal Convention or legislation.
- Assuming the existence of a cause of action, there would be the challenge of seeking to enforce judgments in foreign jurisdictions (noting the likelihood of being unable to recover against a group which would largely comprise criminals), which could in fact mean that the carrier has to carry the costs itself.
- Although carriers will receive pre-notifications of commercial deliveries and customs declarations on receipt of non-commercial deliveries, carriers are not in a position to carry out checks to ensure that the statements of goods correspond with the contents of consignments and that the goods are genuine. Importantly, such checks will ordinarily be proscribed by law.
- There are clearly real challenges around correctly identifying what is and what is not a counterfeit item. Who is to bear liability if erroneous decisions are made? If goods are seized, the delivering carrier must be consulted so that it can maintain records (e.g. details relating to sender, recipient, contents and the reason for seizure) to counter any claims for lost items from importers and foreign carriers. Any necessary data exchange between carriers will raise cross border data sharing issues.

Due to the above reasons, carriers believe that that rights holders are better placed to pursue counterfeiters based on the enforcement of their own intellectual property rights. The respondent believes that the costs should be borne by the importer/exporter, unless found not to be infringing. If they fail to do so, we believe that the costs should be borne by customs as the only fair alternative.

9.8.5 Contribution E (Note: this contribution was also produced on behalf of a right holder association).

The respondent recommends that the new Regulation should explicitly state that primary responsibility for all costs associated with the detention, storage and destruction of counterfeit goods should be borne by the owner of those goods.

If the owners of the goods cannot be found and if the rights holder is to be responsible for storage and destruction costs, The respondent proposes that the current requirement on rights holders to bear “all costs incurred under this Regulation” (Article 6) should be amended to refer to “customs costs...”

The respondent believes that trademark owners should not bear all costs of storage and destruction of goods. Economic operators are in a good position to be able to establish procedures to pass on the responsibility of costs of storage and destruction to those more directly involved in the counterfeiting activity.

a. Scope of the provisions regarding costs in the IPR customs enforcement Regulation.

Storage and destruction costs represent a substantial obstacle to the effectiveness of the current system and the revised Regulation should seek to eliminate the burden on rights holders (and governments) to meet the costs of storing and destroying counterfeit goods.

The spirit of past amendments to the 1986 and 1995 Regulations, which removed application fees and requirements to post security, has been more than offset by rights holders' liability to meet storage and destruction costs. The Simplified Procedure should have reduced costs, but in many cases it has increased the costs borne by rights holders. In addition, Article 11 is inconsistent with Article 10, lit. 2 of Directive 2004/48/EC which states: "The judicial authorities shall order that those measures [i.e. destruction of infringing goods] be carried out at the expense of the infringer, unless particular reasons are invoked for not doing so."

Furthermore, the current requirement on rights holders to bear "all costs incurred under this Regulation" (Article 6) has been used by carriers to support claims against rights holders for reimbursement of their costs.

The respondent has conducted a survey on practical aspects of storage and destruction in the EU. Initial findings of the report suggest that there is significant variation in practice between Member States. In the case of storage costs, for example, while some countries such as Germany, Italy, Latvia, among others do not pass on the costs of storage to the rights holder, others such as Bulgaria, Czech Republic, and Hungary generally do require rights holders to meet storage costs. Practices in other jurisdictions are less clear, such as Spain, where customs normally bear storage costs, but in exceptional cases may pass the costs on to the rights holder or importer.

The respondent recommends that the revised Regulation should explicitly state that primary responsibility for all costs associated with the detention, storage and destruction of counterfeit goods should be borne by the owner of those goods. However, if the owners of the goods cannot be found and if the rights holder is to be responsible for storage and destruction costs, the respondent proposes that the current requirement on rights holders to bear "all costs incurred under this Regulation" (Article 6) should be amended to refer to "customs costs..."

b. Liability of intermediaries.

Counterfeiting is a pervasive problem, that affects not only trademark owners, consumers, and governments directly, but also indirectly the economic operators whose services are being used by counterfeiters to store, transport, distribute and sell counterfeit goods. In this sense, shippers, carriers, consignors, customs declarants, etc., are also adversely impacted by counterfeiting.

The current requirement on rights holders to bear "all costs" incurred under Article 6 has been used by carriers to support claims against rights holders for reimbursement of their costs. Trademark owners are not responsible for counterfeits of their products. As such the respondent believes that trademark owners as a primary victim of counterfeiting should not be responsible for bearing all costs of storage and destruction of counterfeit goods. The economic operators who are involved –voluntarily or involuntarily – should recognize: 1) the potential for their systems and services to be used by counterfeiters; 2) that should those products going through their system be seized, costs will be incurred during the subsequent investigation; and 3) that steps should be taken to ensure that those costs can be borne by the importer or consignee of

those goods if they are found to be counterfeit. One of the main problems with recovering costs is the almost impossible task of tracking down the importer.

The economic operator is in a good position to be able build in procedures (through insurance or otherwise) to pass on the costs of storage and destruction to the owner of the goods should such a situation arise.

The respondent believes that trademark owners should not bear all costs of storage and destruction of goods. Economic operators are in a good position to be able to establish procedures to pass on the responsibility of costs of storage and destruction to those more directly involved in the counterfeiting activity.

c. Should these provisions be set out without prejudice of the right of the person liable for costs to seek redress through the judicial system from any other party involved according to common provisions in force?

The respondent strongly believes that whatever provisions are set out, they should be without prejudice to the right of the person liable for costs to seek redress through the judicial system from any other party involved.

9.8.6 Contribution F (Group of lawyers)

The capacity and costs of storage and destruction do indeed create a serious obstacle to the effectiveness and efficiency of the measures laid down in the Border Measures Regulation, since they frequently discourage rights holders (especially SMEs) from taking action against goods infringing their IPRs.

Article 41(2) of the TRIPS Agreement – as implemented in Article 3 of Directive 2004/48/EC – provides that IPR enforcement procedures should not be unnecessarily complicated nor costly. Further, Article 10(2) of Directive 2004/48/EC provides that the destruction of goods that have been found by the courts to infringe IPRs shall be carried out at the expense of the infringer, unless particular reasons are invoked for not doing so. The Border Measures Regulation should be put in line with the Directive in this regard.

By providing that destruction will, in principle, be carried out at the expense of the rights holder, Article 11 of the current Regulation incorrectly conveys the impression that the rights holders should not be in a position to claim reimbursement (or direct payment) of the costs of destruction from the infringer. By contrast, such a damages claim can be initiated as part of the court proceedings under Article 13 (see Art 17 of the Regulation, “*Without prejudice to the other legal remedies open to the right holder...*”). The respondent agrees that, in principle, the destruction, just like the conditions of storage of the goods during the period of suspension of release or detention, should not give rise to costs for the customs administrations. Article 15 of the current Border Measures Regulation could be maintained in this regard (subject to some minor amendments if a specific simplified procedure were to be adopted regarding small consignments; see above, section 4). However, the Regulation should not preclude agreements whereby the infringer or a third party undertakes to pay these costs, nor claims for damages which the rights holder might consider filing to seek reimbursement of these costs.

In that it provides that the rights holder must agree to bear all costs incurred under the Regulation, Article 6 (and the declaration referred to in this provision) should also be amended to that effect. The rights holders should undertake to reimburse all costs which the customs authorities incur to keep goods under customs supervision pursuant to

Articles 9 and 11, and should indemnify customs against possible actions from third parties in this regard. In the case of Article 11, this should also cover the costs of destruction.

Alternatively, the scope of the provisions regarding costs in the new Border Measures Regulation should be limited to costs incurred by the customs authorities, leaving other costs to be borne in accordance with the applicable national provisions regarding civil or criminal IPR enforcement.

- As a general rule, the new Border Measures Regulation could provide that the economic operators involved – whether or not they acted in bad faith – in the trade of IPRs infringing goods should be primarily liable for the destruction and storage costs. In principle, these costs should be borne primarily by the infringer. However, intermediaries acting under contract with the infringer should be liable for such costs whenever the identity of the infringer is not known to the rights holder. This would not be inconsistent with the Modernised Customs Code, which provides in Article 125 that:

"Where the customs authorities have reasonable grounds for so doing, they may require goods which have been presented to customs to be destroyed and shall inform the holder of the goods accordingly. The costs of destruction shall be borne by the holder of the goods."

In the case of good-faith operators, such responsibility should be set out without prejudice to the right to seek redress through the judicial system from any other party involved (whom they are better placed than the rights holders to identify) according to the common provisions in force under applicable national law.

Service providers should, as a minimum, be held liable for costs once they have been notified by customs and/or by the rights holder that the goods infringe IPRs and yet continue to oppose destruction in application of the simplified procedure.

In order to avoid as much as possible groundless oppositions to destruction by persons who have no authority over the goods, the new Regulation could also provide for an obligation on intermediaries, when opposing destruction, to post a financial guarantee to cover the costs of storage of the goods pending the court proceedings.

The increasing involvement of intermediaries in the fight against IPRs infringements is reflected in other recent Community legislation, such as Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, and Directive 2004/48/EC.

9.8.7 Contribution G (Law Committee of an Association)

The costs resulting from storage and destruction of infringing products are enormous. These will all have to be borne by the IPR-holder, although the rights holder is not infringing one's rights. We can imagine that a trademark owner should only pay for the costs made by the customs (in this case the customs offer services to the trademark owner). However, concerning the other costs (of storage, destruction etc.); these could be reimbursed by a fund with money coming from the initiator of the transfer instructions, besides the transfer costs, that is comparable to the so-called Ecotax related to flights. The amount could depend on the type of product concerned (infringement on furniture could be in less quantities than if f.i. clothing or medicines is concerned).

We also feel that the IPR-holder should make some effort to prevent the trade in products to another region/country where these products will be infringing.

Also, one could think of a statement of authorities of the country of departure that the products concerned are original with destination X (f.i. the EU). IPR-holders could possibly contribute to tell to the customs how to distinguish fake from real. Money saved from the payment of costs for destruction of goods could be used in an earlier stage for the prevention of (unfair) trade in infringing goods.

Further, from the trademark owner's view: it is important that a Regulation will be introduced based on which the trademark owner may choose to take responsibility for the destruction of infringing goods. It often happens that counterfeit products are not destroyed at all, but (re)appear somewhere on the second-hand market (often outside of the EU, but still). The destruction of chemical and pharmaceutical products (whether or not fake) should comply to very stringent (environmental) rules and customs appear to not always react thereto in the right way. In practice, it appears that the destruction of this kind of products is so complicated and expensive that exactly these products show up on the market somewhere, with all risks and consequences.

10. OTHER ISSUES (Question 7 of the consultation paper)

As requested, the respondents also provided comments on issues not specifically addressed in the consultation paper:

10.1 Concerns about the IPR enforcement policy of the EU

1. The appropriate scope for border controls remains an issue in flux and there are several areas of legitimate debate, as can be seen from this and no doubt other responses to the consultation. In these circumstances, the EU should be very careful not to bind itself under an international treaty to applying a regime which it may decide in the future is not in the best interest of European businesses and citizens but which cannot be changed without amendment of the international treaty. Therefore, the mandatory requirements of ACTA should be limited to counterfeits and pirated goods, with extensions of border controls to other IP infringements remaining optional and thus a matter for determination by the EU over time.

2. The Council Regulation 1383/2003 is one element of a broad trade policy agenda adopted by the European Union that has caused great concern to public health and development agencies in recent years. In this respondent's opinion, the EU is seeking to export its current regime of IPR enforcement through customs officials in the EU to other countries through three means:

- a. Bilateral and regional free trade agreements
- b. The Anti-Counterfeiting Trade Agreement;
- c. Bilateral pressure through an Intellectual Property Watch List released by the EU on a yearly basis.

The EU should consider this respondent's recommendations and undo border measures that seek to resolve patents disputes and most trademark disputes. This is especially important with respect to medicines in transit.

Furthermore, the EU should also address other legislative efforts that would have an adverse impact on access to medicines in the developing world, such as *Medicrime* and other on-going efforts to harmonize standards across Europe. These efforts could imperil parallel importation or result in unnecessary extensions of the patent life of a medicine. Attempts to harmonize IPR standards are not conducive to ensuring countries can set IPR standards according to public health needs and challenges specific to the country.

3. Customs should not have any involvement in this at all.

In the first place each country has an adequate legal structure for rights holders to use if they suspect copyright/patent infringement. Customs are ultimately funded (via taxes) by the general population. We, law-abiding citizens, should not have the onerous expense of funding rights holders, the majority of which are extremely rich multinational corporations.

Secondly this is wide open to abuse and (as has already happened) enables a restraint of trade by a supposed rights holder making an unsubstantiated complaint, that delays another company's product placement just long enough for them to lose the market edge. This directly impacts on us, the customers, in the form of erratic product availability/specifications and artificially raised prices.

10.2 Destruction of IPR infringing goods

a) Person responsible for organizing destruction

- A respondent stated that the shippers/importers/senders/addressees should be obliged to organise, where appropriate, the destruction of the goods rather than the right holder (in particular as the right holder is not the owner of the items and therefore in general not in the possession of the goods). If the Regulation is not changed accordingly, at least it should be declared that the customs authorities will organise the destruction of the goods; currently some national customs authorities insist that the right holder organises everything. This, of course, is more than difficult as the right holder generally is not located in the close vicinity of the customs office and does not know whom to ask for the destruction of the goods.
- Another respondent believes that, in certain circumstances, the Regulation should provide for seized goods to be destroyed by the IPR owner, rather than for destruction to be undertaken by customs authorities. IPR owners are not generally informed about how goods are destroyed – it is to be hoped that glass, paper etc are, where possible recycled. Further, certain goods (for example, agrochemicals, pharmaceuticals, alcohol) need to be destroyed in particular ways and it is likely that IPR owners are best able to do this. The respondent therefore urges the inclusion into the Regulation of a power for customs authorities to provide counterfeit and pirated goods to the IPR owner for destruction “under oath” (i.e., the IPR owner provides a sworn statement that the goods have been destroyed). This should be at the request of the IPR holder (i.e., it is the IPR holder’s option to ask to destroy the goods, not the custom authority’s). Given that IPR owners will often have existing facilities (or access to facilities) for environmentally friendly destruction of their own goods, the cost of destruction may be less than customs authorities are able to achieve.
- Por último, con relación a la organización para destruir los efectos no son los titulares de derechos (que no son propietarios ni poseedores de las mercancías) los que deban ser obligados a organizar la destrucción sino los transportistas, importadores, remitentes o destinatarios. Si el Reglamento no se modifica en este sentido debería al menos declararse que la organización de la destrucción la realice la Autoridad Aduanera.

b) Secure and friendly environmental destruction

- Dismantling and recycling of the components of counterfeits in secure circumstances should be enabled. In particular it should be contemplated that counterfeits will be moved cross border to other Member States for disposal. In this way, hubs for this sort of work could be established, perhaps along the lines of WEEE/RHOS, using the “destruction” costs from the importer or carrier.
- The new Regulation should encourage environmentally-friendly destruction processes, such as recycling, and allow infringing goods to be transported from one Member State to another, under customs supervision, for that purpose. Article 16 of the current Border Measures Regulation would, in such case, need to be amended to authorise customs to move the goods under their control from one place to another within the Community customs territory for destruction.
- Recycling. Recycling options in most countries are however limited, but certain facilities have an international function. Article 16 imposes however barriers to the international movement of confiscated fake goods. It is important however to move the goods freely nationally and internationally for the sake of recycling only. PROPOSAL: - Allow the international movement of goods by changing article 16 accordingly
- Environmentally-friendly destruction of goods, such as recycling, should be encouraged.

c) Disposal through non-commercial channels

- Disposal through “non-commercial channels” of counterfeits, such as to charity, should not be enabled, given the unknown provenance of counterfeits, their unknown (or proven poor) quality and the likelihood of items being reintroduced into commercial channels. Charitable causes should only receive good quality materials fit for their purpose, which counterfeits are not.
- Disposal through “non-commercial channels” of counterfeits, such as to charity, should not be enabled, given the unknown provenance of counterfeits and the likelihood of items being redirected to commercial channels. Focus should be put on ensuring resources are not wasted in production of counterfeits, and that charitable causes receive good quality materials fit for their purpose. The two should not be conflated.
- Donation to charity. While laudable that some seized counterfeits are used for charitable purposes, the respondent believes that governments should take appropriate steps to ensure that all counterfeit goods are compulsorily destroyed, definitively removed from channels of commerce, or disposed of with the rights holders’ consent where there is no health or safety risk. The respondent notes that disposal of counterfeit goods outside the channels of commerce is not the proper mode of ensuring that goods are not used by consumers.

10.3 Provision of information to IP right holders and authorized use of information.

The IP right holders commented on the information to be provided by customs to them and its authorized use as follows:

- Customs should disclose to rights holders full information about infringing goods and parties involved. Notwithstanding Art 9 (3) and Art 12 of Council Regulation (EC) No 1383/2003, which sets out that rights holders "shall be informed", customs

in various EU Member States refuse to provide rights holders with information about the consignor, consignee, country of origin, destination, etc. of the stopped goods, or condition such disclosure upon physical inspection (which is often impractical), undertaking to bring legal action (and disregarding the simplified procedure) or similar. The lack of relevant information often makes it more difficult and sometimes even impossible to confirm authenticity of the detained products.

Therefore, the respondent considers that the obligation of customs to disclose information envisaged in Art. 9 (3) should be unambiguous and that such information should always be disclosed by customs to the right holders, if available. In this respect, the information about the origin of the products is particularly important, so that right holders may take action against counterfeiters in the country of their origin.

- The right holders (pharmacy industry) indicate that they would like to be informed by the customs of the number of products seized for each IPR concerned as well as the batch number, so as to check as quickly as possible where the original batch(es) has (have) been distributed, which countries are potentially concerned, all this for safety reasons.
- Applications for actions should allow right holders to request samples, in every case of interception of goods, so that customs notifications are automatically sent with the samples. Customs should also be required to send digital photographs of intercepted goods to right holders or their agents.
- The new Border Measures Regulation should allow the rights holders to retain samples of goods that have been detained by the customs authorities, e.g. for training purposes, on condition that such samples shall be definitively removed from commercial channels.

The retention of samples by the rights holders could, if appropriate, be subject to the filing of a declaration that they have been irrevocably removed from commercial channels. Failure to comply with this undertaking could give rise to sanctions under Article 12 of the current Border Measures Regulation.

- Disclosure of information: Should current restrictions on the disclosure to and use of information by rights holders be relaxed?

The current regime and, in particular, the simplified procedure has greatly assisted rights holders in securing the seizure of large quantities of counterfeit and pirated goods. However, the deterrent effect of seizure alone is questionable. The respondent believes that, where possible, information on the parties involved in the trade in counterfeit and pirated goods should be made available to rights holders to pursue deterrent enforcement activity, either civilly or in partnership with law enforcement agencies.

The Commission should clarify that the Regulation is intended to enable rights holders to use information disclosed on consignments of counterfeit and pirated goods to follow up against any parties identified within and outside of that jurisdiction. Once a consignment has been identified as counterfeit, the protection of associated personal data should fall away. Existing safeguards already prevent rights holder abuse of information disclosed prior to seizure.

- Use of information. Article 12 purports to limit the use by right holders of information disclosed by customs solely to the purposes of the detention and

destruction provisions of the Regulation. In theory, this would prevent the use of such information for legitimate intelligence analysis by right holders, which can only help customs in targeting subsequent operations. It would also prevent the use of the information for the purpose of bringing of criminal or civil cases, the objective of which was to seek compensation or prevent repeated acts of infringement. This Article, which is in any case of debatable enforceability, should be deleted.

- The Regulation should leave it to courts to decide when the use of information from customs seizures for other purposes is or is not a question of privacy. The current wording is overly restrictive and leads to the grievance, that it would be a breach of the Regulation to inform a judge of contempt on an existing final injunction if the information came from a customs detention. Where a right holder is informed about a shipment that turns out to be non-infringing, clearly the right holder should not use any information from that interaction, but that should be dealt with using much narrower language than is used today.
- It should be for the courts to decide when the use of information from customs seizures for other purposes is or is not a question of privacy. The current wording is overly restrictive.

Currently, if customs seize parallels erroneously suspecting them to be counterfeit, this creates serious practical problems: right holders are alerted to illegal parallel trade by customs, and know who is behind this trade if they ask customs for details under Art 9(3). But they cannot then use that information to take their own legal action to enforce their IPRs, only to (i) release the goods, (ii) obtain a settlement under the simplified procedure or (iii) to initiate legal proceedings under the Regulation.

In addition to this block on enforcing their own IPRs, the assistance which rights holders can offer law enforcement is also compromised by the restriction on use of information.

Therefore Article 12 should be amended to allow for the information to be used for legal action under trade mark/other IP-related EU legislation. The respondent would favour the following wording for Article 12: *"A right holder, as defined in Article 2(2), shall be permitted to use the information cited in Article 9(3) in connection with any goods infringing an intellectual property right within the meaning of Article 2(1):*

- (a) for the purposes of or in connection with prescribed civil or criminal proceedings (including prospective proceedings) in any jurisdiction; or*
- (b) for the purposes of obtaining legal advice in relation to such proceedings; or*
- (c) otherwise for the purposes of establishing, enforcing or defending legal rights that are or may be the subject of such proceedings".*

This wording was successfully introduced in the UK to amend Part 9 of the Enterprise Act 2002, in relation to information disclosed by trading standards to rights holders.

It must be right that, once the goods have been identified by the rights holder as counterfeit, the information provided by customs about the consignment and the parties involved should be available to the rights holder for their own legitimate enforcement actions. Otherwise, they cannot effectively protect their rights.

Allowing time for the rights holder to reach a conclusion as to authenticity, including forensic testing etc

- Provisions should be adopted in the new Border Measures Regulation to allow rights holders who have obtained information from the customs authorities under the Regulation to use it to enforce their IPRs, even when the IPR infringement is not covered by the Regulation (see, e.g., under the current Regulation, the situation of parallel imports and overruns; cf. the Opinion of Advocate-General Colomer of 8 April 2008 in case C-132/07, *Beecham Group plc anors v Andacon NV*). Use of such information should, for example, be allowed when claiming compensation from the infringer or third parties for the prejudice incurred as a consequence of the suspension of release or detention or destruction of the goods.
- Disclosure of information: Right holders would highly benefit from disclosure of information to enable them to work proactively to find the source of the infringing goods. Both enforcement agencies and right holders would benefit from cooperation in this area to understand the manufacturers' and distributors' networks and also the trade flow of the infringing goods.
- The Regulation should clarify that right-holders shall have the right to use all information obtained in connection with a procedure under the Regulation for enforcement of their respective rights in national courts and elsewhere, irrespective of the outcome of the procedure under the Regulation (i.e. also where it later is established that the Regulation is not applicable).

10.4 Application for action

a) Formalities

- This should both be dealt with as an issue of direct effect or maximum harmonization. Member States should not be able to impose additional formalities in order for a right holder to be able to rely on a single European registration. The current situation, such as where Greece requires additional formalities such as multiple translations is an unjustified burden, particularly on SMEs, and undermines the Regulation as a harmonisation measure.
- There has been a discernable increase in unnecessary customs formalities in recent years. This has acted as a disincentive for rights owners to fully utilise the border enforcement system and has led to fewer successful interventions and a decrease in results. Such formalities imposed by national customs authorities, which seriously hinder the effective application of the Regulation and which are in our opinion not consistent with the spirit of the EU border measure, should ideally be addressed in the future Regulation or alternatively by the issuing of informal guidelines from the Commission to the Member States. The current manual has unfortunately had the opposite effect. As the effective application of border enforcement depends on a successful cooperation between rights owners and customs authorities, the respondent advises to consult rights owners in the drafting of guidelines to implement the border Regulation.

b) EU wide centralized electronic system

- EU wide centralized electronic system for communication of right holders with customs: Now, when it is possible to file customs applications covering the entire EU or various EU Member States based on Community trade marks and

Community designs, the respondent believes that the effectiveness of the system would be further increased if:

(i) EU customs applications could be filed electronically and centrally with one authority (e.g. OHIM), which would administer them and notify customs in the EU Member States concerned;

(ii) EU wide electronic database for recording customs related information would be set up and rights holders would be given opportunity to centrally upload relevant materials, such as guides (how to distinguish genuine products from counterfeits), and to notify customs about suspicious shipments or new trends (while using the red alert and new trends forms); and

(iii) EU wide black list of known infringers directly accessible to all customs would be created and maintained.

These additional measures should ensure that customs throughout Europe – in cooperation with right holders – are up to date and in possession of all the relevant information, which should ultimately lead to even more effective combating of counterfeiting and piracy in the EU.

- The filing of applications for action by customs authorities electronically should be further encouraged and, whenever possible, the Member States should be obliged to allow this. If at all possible, the Implementing Regulation to the new Border Measures Regulation should propose a standard platform, or at least standard editable electronic forms, for this purpose, in order to avoid discrepancies between Member States as much as possible.
- The respondent sees the custom Regulation as a major improvement in enforcing IPRs. However, the administrative procedure could be enhanced. The respondent suggests establishing one joint EU-wide IT-tool for submitting the application data. Also it would be helpful to derogate prerequisites of translation where the application is rendered in English. The process would become much faster, cheaper and therefore more efficient. Ideally such an IT-tool would be combined with the databases of the OHIM and the CPVO to have the latest information regarding the IPRs concerned directly integrated in the application (and therefore even the translations).
- Electronic filing of applications for action should be encouraged and member states should be obliged to introduce possibilities to make such electronic filings.

c) Term of validity of customs application.

- The recent change in practice whereby applications are only granted until the expiration of the relevant intellectual property right has caused significant inconvenience and expense to rights holders. This is particularly so because trademark rights cannot be renewed more than 6 months before expiry. Presumably, this change has also increased the administrative burden on customs administrations now dealing with multiple applications from the same rights holder and/or shorter terms of validity.

The respondent recognizes the risks associated with applications containing rights due to shortly expire, but hopes that a pragmatic solution can be found to reduce the burden on rights holders and customs alike. Article 8 of the Regulation provides that the rights holder shall notify customs if a right ceases to be validly registered or expires. The respondent submits that this provision could remain and be properly

interpreted as requiring rights holders to notify customs if a right expires, but not when it has been renewed.

If this is not acceptable, the Commission can consider two alternative solutions:

(i) Grant applications for one year, but make it clear that a decision is conditional for any rights expiring earlier upon the rights holder providing evidence of renewal. A simple renewal request and payment confirmation would suffice. If the rights holder is unable to provide evidence of renewal, then the customs application expires for any rights not renewed and the remainder of the application runs its course to the end of the year.

The respondent understands that some national customs administrations currently adopt similar procedures for dealing with national customs applications. For example, a decision can read: *“The term of protection runs from 16 December 2009 to 15 December 2010. In relation to the trademark X, the term of protection is extended on condition that the trademark owner delivers, by 10 April 2010, a document confirming that the trademark X has been renewed for another 10-year period, i.e. from 11 April 2010 to 10 April 2020”*.

(ii) An alternative would be for rights holders to be ”penalized” where they act on the basis of a detention without first providing customs with evidence that a relevant right had been renewed.

- Consideration should be given to an extension of the legal period of validity of an application for action from one to two years. The respondent believes that a harmonized and simplified application renewal process should be provided in cases where the original application remains unchanged. The respondent also believes that it should be possible to easily add new IPRs to a current application for action, and that customs authorities in different Member States should not be able to request or impose additional documents or requirements on right holders when they file applications for action.
- Expiry of the TM in the application period. The implementation by the National authorities of article 8 1 last paragraph of the Regulation, has resulted in legally wrong decisions by the National authorities.

“The right-holder shall notify the competent customs department referred to in Article 5(2), if his right ceases to be validly registered or expires”

Certain authorities refuse applications which refer to trademarks, which expire in the year for which protection is requested or they grant the entire application not for a year but only until the date of expiry of that particular trademark. We consider this legally incorrect for the following reasons:

(i) Article 8 only mentions that the right holder shall notify the customs department; expiry is not mentioned as a ground for refusal.

(ii) A trademark cannot be extended more than half a year before expiry.

(iii) Even after expiry of a well known mark (most of the brands for which an application is filed) protection is granted according the Paris Convention article 6bis.

(iv) The right holder has signed an indemnity letter according to which he is liable for any abuse of the Regulation and article 8 par 1 has a direct effect. This implies

that it is the right holders' responsibility if goods are suspended based on a right, which has expired.

(v) There is no legal basis for limiting the application in time for the other trademarks not expiring throughout the year.

PROPOSAL - Delete article 8.1 entirely and leave it up to the right holders' responsibility not to enforce rights which have expired; right holders have expressed to be liable through the indemnity letter anyhow. Or, change the wording of article 8.1 into: *“the competent customs department shall limit the customs application referred to in article 5(2) with regard to rights which ceases to be validly registered or expires.*

- Validity of customs application: the respondent believes that the current practice of determining the validity of customs applications on the basis of the filed intellectual property rights appears to cause customs authorities to create overwhelming administration for customs authorities. Right holders also have to file multiple applications within one year. This system puts another costly administrative burden on the right holders. The heavy administrative burden on the customs authorities has in our experience resulted in the expiration of applications before renewal and thereby reduce rights holders protection.

The only current option that enables right holders to safeguard the validity of the application is to exclude rights that otherwise could be the most important rights until it has been renewed.

d) Single application for copyright – extension of Article 5(4)

Whereas a single application can be made for customs protection of a Community trade mark, copyright holders must apply separately in every Member State where protection is sought.

This disparity of treatment may have been founded in the notion that the Community could not establish EU-wide notification arrangements for an intellectual property right that had not been harmonized at Community level. However, there is no reason why such provision could not be made. A similar deliberation took place during the enactment of Directive 2004/48/EC on the enforcement of intellectual property rights. It was eventually realized that the national or Community nature of the rights protected was irrelevant to the issue of competence and all such rights were included within the scope of the Directive.

The effectiveness and attractiveness of the Regulation for copyright holders, especially SMEs, would be increased if it were possible to register for all relevant Member States by a single application in a right holder's or exclusive licensee's home territory.

10.5 The system does not offer adequate protection for the alleged infringer against the damages than can occur as a result of an unjustified suspension of goods

- Following article 6 of the Regulation, the right holder is obliged to submit a declaration in which the right holder accepts liability towards the alleged infringer.

The system does not offer adequate protection for the alleged infringer against the damages than can occur as a result of an unjustified suspension of goods.

A suspension of goods, which is followed by a justification action by the right holder has consequences equivalent to the consequences of a preliminary injunction or seizure of goods. Under the Danish Civil code such interim proceedings requires

for the right holder to place a guarantee with the court. This guarantee is required to prevent that the alleged infringer has to unfold unreasonable efforts in order to collect any damages and costs awarded from the right holder in the event that the interim proceedings were unjustified. The article 6 does not offer any such protection of the alleged infringer.

The article 6 declaration only establishes the right holder's liability. The alleged infringer still has to file a claim against the right holder in order to be awarded damages and costs in the event that right holder fails to initiate the appropriate proceedings (filing a justification lawsuit against the alleged infringer) in order to determine whether his intellectual property right has been infringed.

- Remedies for unjustified seizure. A stakeholder representing the interest of the generic pharmaceutical industry stated: If goods are seized by customs, whether at the originator's request or not, and this detention was unjustified, the Regulation does not fully protect the interests of the owner of the suspected infringing product. An injured party is required to undertake a lengthy and costly litigation for financial compensation, which in any event, will not compensate for the delay suffered by the generic and its likely loss of an early to market position. There is currently no provision for IPR holders to compensate goods owners for initiating a seizure by customs, which turns out to be unjustified. The implementation of such a provision to adequately compensate goods owners would be an incentive for IPR holders to only initiate customs action in cases where there is a real basis to suspect infringement.

10.6 Period of 3 days for perishable products to initiate legal proceedings in case of perishable goods

In Article 13 the Regulation provides that the time frame, which is at the disposal of the right holder to conduct inspections on the seized goods, should be 3 days for perishable goods. In case of plant variety rights the infringing good can be the seed itself but it can also be vegetative propagating material of the plant variety, which would qualify as perishable good. The respondent finds the 3 days rather short and difficult to meet taking into account the fact that checking the identity of the variety either in laboratory tests or in grow-out trials takes significant time. For this reason, clearly, a longer period is needed for this plant-related aspect.

10.7 Retention right of transporters and owners of customs warehouses

- Some rights holders have experienced problems with intermediaries (typically, transporters and owners of customs warehouses) relying on their supposed 'retention right' to oppose the destruction of the goods for non-payment of transport or storage costs. The new Border Measures Regulation should prevent the exercise of such a 'retention right'. Indeed, this right aims to allow intermediaries to sell goods, which are in their possession to recover costs due to them. However, the sale of goods infringing IPRs that have been detained by customs authorities is precluded under the Border Measures Regulation. This conclusion is supported by case law in the Member States (see e.g., in the Netherlands, Pres. District Court of Rotterdam, 7 January 2000, *adidas v Hapag Lloyd*, [2000] BMM Bulletin 13)
- The Regulation should make clear that transporters and other intermediaries may not rely on retention rights or other security rights in the goods in order to obstruct destruction of the goods under the Regulation.

10.8 Concerns, which hinder Regulation 1383/2003 to fully explore its potential.

Despite the considerable improvement of the Regulation in 2003, the respondent unfortunately sees that this instrument is still not sufficiently known among European manufacturing companies. Furthermore, many companies that are aware of the existence of this instrument decide not to take action for many reasons, which are described below. The degree of cooperation with customs authorities also largely depends on the sector and size of the company. While big multinational companies might possess sufficient staff to cooperate with customs and accept the obligations placed on them, most SMEs do not.

The following are reasons why the Regulation is not sufficiently used by European engineering companies:

- Perception that filing complaints would take too much effort, cost and time.
- A deterrent is the cost of storage (Article 6) and of destruction (Article 11) of counterfeit goods, which need to be borne by the rights holder. Many rights holders (who rightly regard themselves as victims of counterfeiting) do not understand why these obligations are imposed upon them. Another deterrent is the *uncertainty* of costs for storage and destruction: these are not known before the application for action is done.
- Concern over the financial risks of inadvertently supplying incorrect information to the authorities about a suspect shipment.
- The obligation to have *rights holders* on the spot within a very short timeframe to identify suspect products is in practice difficult to meet, especially for SMEs.
- Reluctance to deal with customs per se, as companies fear that additional requirements or costs will be imposed on them; it is often not the department dealing with IPRs but another department (e.g. export marketing and component purchasing) that deals with customs in a company, and they have often had previous (negative) experiences in dealing with them.
- A fear of bad publicity (certain companies are still concerned that it will harm their image if it is stated in the press that their products are being copied).
- Perception that many national customs authorities lack expertise in dealing with counterfeit industrial goods (whereas in traditional consumer goods such as textiles, watches, CDs, shoes etc. they have gained sufficient experience and have elaborated effective methods).

The respondent invites the Commission to take such concerns into account when reviewing the Regulation. The respondent would furthermore appreciate the performance of a study/analysis on the “popularity” of this instrument among EU industry. The respondent has asked at several occasions for the publication of more information about the actual use of the Regulation by companies. The respondent still lacks knowledge on *how many* companies have actually decided to cooperate with customs and to which extent engineering companies take advantage of it.

10.9 The need for an information system between national and EU authorities

- For cooperation between the different authorities to work effectively, the respondent suggests introducing an internet-based information exchange system that would allow national authorities to inform each other on counterfeit and pirated products and trends. Also intelligence on suspect companies (importers, traders) both within

and outside the EU could be networked across all applicable authorities within the EU. Such a system could take shape in many ways, for example:

- (i) by creating an information exchange platform under the authority of the EU Observatory on Counterfeiting and Piracy,
- (ii) by linking it up with the electronic information exchange system foreseen by Regulation 765/2008/EC,
- (iii) by linking it up with the current RAPEX and/or the ICSMS systems, or
- (iv) by any other method deemed appropriate by the Commission services.

Such a system could initiate a planned chain reaction of cooperative processes and follow-up actions to be taken by the different players. We invite the Commission to consider introducing such a system for counterfeit and pirated products.

- Promote cooperation on communication with other enforcement agencies, including market surveillance authorities.

10.10 Customs and market surveillance authorities need more resources in order to work efficiently

A respondent stated that customs authorities and market surveillance authorities had insufficient resources to deal with the counterfeiting and piracy challenge. Only a handful of EU countries had specialised anti-counterfeiting and anti-piracy teams. The EU border was only as good as its weakest point; as a result the same level of protection needed to be ensured throughout the EU.

The respondent therefore invited policy makers to commit sufficient resources to authorities that deal with counterfeiting and piracy, to enable them to fulfill their obligations. Such resources were especially needed for:

- Carrying out administrative checks and tracing counterfeit products and unlawful market operators both at the EU borders as well as within the EU;
- Improving physical controls; possibly also by investing in high tech scanning equipment, large enough to scan containers at the EU borders (especially for instances where documents do not match up with the products, included when this is done for the purpose of duty evasion);
- Developing a database that keeps track of infringements and infringers (exporters/importers that have infringed IPRs should be given the highest risk rating; simplified procedures of these exporters/importers should be revoked; future shipments of these exporters/importers should be inspected);
- Funding of information campaigns and for supporting co-operation with third parties and industry associations in order to better inform companies about their possibilities.
- Training customs resources on specific product sectors and especially for fake products with a potential for giving rise to health and safety issues, such as electrical or mechanical engineering products;
- Ensuring that the manufacturers declaration of conformity is asked during import procedures, as requested by Decision 768/2008 and referred to in Art 27 § 3b of 765/2008/EC;
- Improving the customs documentation that describes quantities, products, brands and country of origin (today's rules on documentation information seem too relaxed and allow products to escape tight control).

Such financial support could be provided within the framework of European Structural Funds or other, in particular to assist Member States whose geographic or economic conditions place them in a weaker position to fight against illegal trade and unlawful imports from abroad. The Commission could use peer pressure and benchmarks to help Member States achieve a comparable level of anti-counterfeiting and anti-piracy activities.

10.11 Variation of practice throughout the EU

The local practice in procedures set out in the Regulation varies widely throughout the EU. For example, customs in one member state refused to seize goods where the product was original but presented in an infringing packaging. Right holders have a legitimate interest in ensuring that consumers are not presented with products in packaging that is not accurate and might be misleading and dangerous. Complex questions should not be dealt with by bodies such as customs without the opportunity for the right holder to refer the issue to a competent judicial authority.