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PUBLISHED IN: International Review of Intellectual Property and Competition Law (IIC) 47, No. 8 (2016), 941-959;  
available at link.springer.com: <http://link.springer.com/article/10.1007/s40319-016-0524-3>

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## **Wolf in Sheep's Clothing? Trade Mark Rights Against Goods in Transit and the End of Traditional Territorial Limits**

*The December 2015 reform of EU trade mark law led to the introduction of a new exclusive right against goods in transit in Article 9(4) of the EU Trade Mark Regulation and Article 10(4) of the Trade Mark Directive. This new right raises complex questions of compliance with the international guarantee of freedom of transit set forth in Article V GATT. In the light of the applicable international provisions, the status of the new right against goods in transit must at least be qualified as ambiguous. It is conceivable that it will be challenged on the ground that it leads to an unjustified impediment of international trade. As the new EU trade mark legislation requires the application of Article 9(4) of the EU Trade Mark Regulation and Article 10(4) of the Trade Mark Directive in line with international standards, in particular Article V GATT, courts will have to face the complexity of the international legal framework and develop workable solutions by applying an amalgam of EU and international law. The result of this exercise will show whether the potential corrosive effect of the new right can be kept within reasonable limits. An overambitious interpretation would unmask the new right as a wolf in sheep's clothing that imposes a heavy burden on world trade.*

### **1. Introduction**

In the EU, the recent trade mark law reform<sup>1</sup> led to a broader arsenal of specific infringement actions complementing the traditional general types of protection against confusion and dilution.<sup>2</sup> As a result of the trade mark law reform, Article 9(4) of the EU Trade Mark Regulation (EUTMR) and Article 10(4) of the Trade Mark Directive (TMD) provide for a specific trade mark action against goods in transit. With the inclusion of this new specific

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<sup>1</sup> Regulation (EU) 2015/2424 of the European Parliament and of the Council of 16 December 2015 amending Council Regulation (EC) No 207/2009 on the Community trade mark and Commission Regulation (EC) No 2868/95 implementing Council Regulation (EC) No 40/94 on the Community trade mark; Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks. As to the debate on the amendment of EU trade mark legislation, see M.R.F. Senftleben/L. Bently/G. Dinwoodie/C. Geiger/J. Griffiths/A. Kur/A. Ohly/A. Peukert/M. Ricolfi/J. Schovsbo/K. Weckström/L. Żelechowski, "The Recommendation on Measures to Safeguard Freedom of Expression and Undistorted Competition: Guiding Principles for the Further Development of EU Trade Mark Law", *European Intellectual Property Review* 37 (2015), 337; A. Kur, "Trademarks Function, Don't they?", *International Review of Intellectual Property and Competition Law* 2014, 434; M.R.F. Senftleben, "Function Theory and International Exhaustion: Why it is Wise to Confine the Double Identity Rule in EU Trade Mark Law to Cases Affecting the Origin Function", *European Intellectual Property Review* 36 (2014), 518.

<sup>2</sup> Article 9(2) EUTMR and Article 10(2) TMD.

right in its proposal for amending EU trade mark law,<sup>3</sup> the European Commission sought to neutralize the implications of the *Philips and Nokia* judgment of the Court of Justice of the European Union (CJEU).<sup>4</sup> According to the Commission, the decision had met with “strong criticism from stakeholders as placing an inappropriately high burden of proof on rights holders, and hindering the fight against counterfeiting.”<sup>5</sup> It was evident that there was “an urgent need to have in place a European legal framework enabling a more effective fight against the counterfeiting of goods as a fast-growing activity.”<sup>6</sup> Hence, the Commission proposed to fill the perceived protection gap by entitling right holders to invoke trade mark rights enjoying protection in the EU regardless of whether allegedly infringing goods are released for free circulation in the internal market.

This proposal went beyond the solution that had been recommended in the preparatory work for the EU trade mark law reform. Considering the international guarantee of freedom of transit, the MPI Study on the Overall Functioning of the European Trade Mark System had proposed to limit rights against goods in transit to counterfeit goods in the sense of the TRIPS Agreement and make it a condition that the conflicting sign at issue be infringing not only in the territory of transit but also in the country of destination.<sup>7</sup> In the course of the legislative process,<sup>8</sup> these nuances were added to Article 9(4) EUTMR and Article 10(4) TMD. The final text of the provisions entitles the trade mark proprietor

*“...to prevent all third parties from bringing goods, in the course of trade, into the Member State where the trade mark is registered without being released for free circulation there, where such goods, including packaging, come from third countries and bear without authorization a trade mark which is identical to the trade mark registered in respect of such goods, or which cannot be distinguished in its essential aspects from that trade mark.”*

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<sup>3</sup> European Commission, 27 March 2013, COM(2013) 161 final, 2013/0088 (COD), Proposal for a Regulation of the European Parliament and of the Council Amending Council Regulation (EC) No 207/2009 on the Community Trade Mark; European Commission, 27 March 2013, COM(2013) 162 final, 2013/0089 (COD), Proposal for a Directive of the European Parliament and of the Council to Approximate the laws of the Member States Relating to Trade Marks.

<sup>4</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 56-63. Cf. H. Große Ruse-Khan, “An international trade perspective on transit seizures”, *BMM Bulletin* 39 (2013), 142 (145).

<sup>5</sup> European Commission, 27 March 2013, COM(2013) 161 final, 2013/0088 (COD), Proposal for a Regulation of the European Parliament and of the Council Amending Council Regulation (EC) No 207/2009 on the Community Trade Mark, p. 9. R. Knaak/A. Kur/A. von Mühlendahl, *Study on the Functioning of the European Trade Mark System*, Max Planck Institute for Intellectual Property & Competition Law Research Paper No. 12-13, Munich: Max Planck Institute 2011, para. 2.31 and 2.177; F. Eijssvogels, “The new Customs Regulation, the Commission’s proposals relating to trademarks and transit – Back to previous Dutch practice?”, *BMM Bulletin* 39 (2013), 135 (140).

<sup>6</sup> European Commission, 27 March 2013, COM(2013) 161 final, 2013/0088 (COD), Proposal for a Regulation of the European Parliament and of the Council Amending Council Regulation (EC) No 207/2009 on the Community Trade Mark, p. 9.

<sup>7</sup> R. Knaak/A. Kur/A. von Mühlendahl, *Study on the Functioning of the European Trade Mark System*, Max Planck Institute for Intellectual Property & Competition Law Research Paper No. 12-13, Munich: Max Planck Institute 2011, para. 2.215.

<sup>8</sup> For interim results, see Council of the European Union, 18 July 2014, Presidency Compromise Proposal, Interinstitutional File 2013/0088 (COD), no. 11826/14 PI 95 CODEC 1620, Article 9(2)(a), and File 2013/0089 (COD), no. 11827/14 PI 96 CODEC 1621; European Parliament, 25 February 2014, Legislative Resolution on the Proposal for a Directive of the European Parliament and of the Council to Approximate the Laws of the Member States Relating to Trade Marks (recast) (COM(2013)0162 – C7-0088/2013 – 2013/0089(COD)).

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## 2. CJEU Jurisprudence

With this new infringement provision, the EU legislator departs from established CJEU case law which favours the freedom of transit.<sup>9</sup> In *Rioglass*, the Court ruled that the transit of car windows and window screens lawfully manufactured in Spain and destined for a customer in Poland (which, at the time, was a non-Member country) by passing through France did not involve any marketing of the goods in France and, therefore, was not liable to infringe “the specific subject-matter of the trade mark.”<sup>10</sup> Hence, a measure of detention under customs control in France could not be justified on the ground that it was necessary to protect industrial and commercial property within the meaning of Article 36 of the Treaty on the Functioning of the European Union (TFEU).<sup>11</sup>

In *Class International*, the CJEU pointed out that measures against goods in transit could only be justified in cases where the customs-approved treatment or use would adversely affect trade mark rights in the EU. However, placing non-Union goods under a suspensive customs procedure did not make it possible for them to be put on the internal market in the absence of release for free circulation. Therefore, a trade mark proprietor could not oppose the mere entry into the EU, under the external transit procedure or the customs warehousing procedure, of goods bearing an allegedly infringing sign. Moreover, the trade mark proprietor could not make the placing of non-Union goods under the external transit procedure or the customs warehousing procedure conditional on the existence, at the time of the introduction of those goods into the EU, of a final destination already specified in a third country, possibly pursuant to a sale agreement.<sup>12</sup>

As to the transit of goods from a non-member State to Ireland (where the trade mark at issue did not enjoy protection) through German territory (where it enjoyed protection), the CJEU held in *Montex v. Diesel* that the trade mark proprietor could only assert his rights if the goods were subject of an act necessarily entailing that they would be put on the market in the Member State of transit (Germany).<sup>13</sup> It was immaterial in this context whether the goods had been manufactured lawfully in the country of origin or in infringement of trade mark rights

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<sup>9</sup> For an overview of the discussion on goods in transit, see H. Große Ruse-Khan/T. Jäger, “Policing Patents Worldwide? EC Border Measures Against Transiting Generic Drugs under EC and WTO Intellectual Property Regimes”, *International Review of Intellectual Property and Competition Law* 40 (2009), 502 (510-520); H. Große Ruse-Khan, “A Trade Agreement Creating Barriers to International Trade? ACTA Border Measures and Goods in Transit”, *American University International Law Review* 26 (2011), 646; C. Heath, “Customs Seizures, Transit and Trade – In Honour of Dieter Stauder’s 70th Birthday”, *International Review of Intellectual Property and Competition Law* 41 (2010), 881; P. Kumar, Shashank, “Border Enforcement of Intellectual Property Rights Against In-Transit Generic Pharmaceuticals: An Analysis of Character and Consistency”, *European Intellectual Property Review* 2010, 506; P. Kumar, Shashank, “International Trade, Public Health, and Intellectual Property Maximalism: The Case of European Border Enforcement and Trade in Generic Pharmaceuticals”, *Global Trade and Customs Journal* 5 (2010), 155; B. Mercurio, “‘Seizing’ Pharmaceuticals in Transit: Analysing the WTO Dispute that wasn’t”, *International and Comparative Law Quarterly* 61 (2012), 389; K. Weatherall, “TPP – Australian Section-by-Section Analysis of the Enforcement Provisions”, Legal Studies Research Paper No. 13/84, Sydney: Sydney Law School 2013, 35-37; K. Weatherall, “Politics, Compromise, Text, and the Failures of the Anti-Counterfeiting Trade Agreement”, *Sydney Law Review* 33 (2011), 230 (249-253); S. Rinnert, “Beschlagnahme von Generika im Transit”, *Gewerblicher Rechtsschutz und Urheberrecht – International Teil* 2011, 901.

<sup>10</sup> CJEU, 27 October 2003, case C-115/02, *Administration des douanes v. Rioglass*, para. 27.

<sup>11</sup> CJEU, 27 October 2003, case C-115/02, *Administration des douanes v. Rioglass*, para. 29.

<sup>12</sup> CJEU, 18 October 2005, case C-405/03, *Class International v. Unilever*, para. 47, 50 and operative part.

<sup>13</sup> CJEU, 9 November 2006, case C-281/05, *Montex v. Diesel*, para. 34.

which the trade mark proprietor could invoke in that country as well.<sup>14</sup> For assessing the transit, the legal situation in the country of destination, in principle, was also irrelevant.<sup>15</sup>

In its further decision in *Philips and Nokia*, the CJEU generalized this approach. The Court found that goods placed under a suspensive customs procedure could not, “merely by the fact of being so placed, infringe intellectual property rights applicable in the European Union.”<sup>16</sup> It also made it clear that intellectual property rights could only be infringed “where, during their placement under a suspensive procedure [...], or even before their arrival [...], goods coming from non-member States are the subject of a commercial act directed at European Union consumers, such as a sale, offer for sale or advertising.”<sup>17</sup> It thus seemed clear that goods in transit would remain unaffected by intellectual property rights enjoying protection in the EU, including trade mark rights, as long as they remained in transit and would not be diverted towards EU consumers. In the case of national or Benelux trade mark rights, this requirement has been interpreted in the sense that the allegedly infringing goods must be directed towards consumers in the respective Member State or the Benelux.<sup>18</sup>

In *Philips and Nokia*, the CJEU also nuanced its approach to transit goods by pointing out that a customs authority could legitimately take steps against goods in transit if there was material indicating that one or more of the operators involved in the manufacture, consignment or distribution of the goods were about to direct the goods towards EU consumers or were disguising their commercial intentions. Such a suspicion could follow from the fact that the destination of the goods were not declared whereas the suspensive procedure requested required such a declaration, the lack of precise or reliable information as to the identity or address of the manufacturer or consignor of the goods, a lack of co-operation with the customs authorities or the discovery of documents or correspondence suggesting that the goods would be diverted to EU consumers.<sup>19</sup>

However, an abstract consideration that fraudulent diversion to EU consumers could not be ruled out, was not sufficient. Otherwise, all goods in external transit or customs warehousing could be detained “without the slightest concrete indication of an irregularity.”<sup>20</sup> Such a situation would give rise to a risk that customs actions in the EU would be random and excessive. In this regard, the CJEU recalled explicitly that “imitations and copies coming from a non-member State and transported to another non-member State may comply with the intellectual property provisions in force in each of those States.”<sup>21</sup> In the light of the objective set out in Article 206 TFEU to develop world trade through the progressive abolition of restrictions on trade, it was essential that goods be able to pass in transit, via the EU, from one

<sup>14</sup> CJEU, 9 November 2006, case C-281/05, *Montex v. Diesel*, para. 34.

<sup>15</sup> CJEU, 9 November 2006, case C-281/05, *Montex v. Diesel*, para. 34.

<sup>16</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 56.

<sup>17</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 57.

<sup>18</sup> German Federal Court of Justice, 21 March 2007, case I ZR 246/02, “Diesel II”, *Gewerblicher Rechtsschutz und Urheberrecht* 2007, 876, para. 18-19; German Federal Court of Justice, 21 March 2007, case I ZR 66/04, “Durchfuhr von Originalware”, *Gewerblicher Rechtsschutz und Urheberrecht* 2007, 875, para. 12-14. As to the Benelux territory, see Court of Appeal of The Hague, 30 October 2012, ECLI:NL:GHSGR:2012:BY1494, *Bacardi v. TOP Logistics*, para. 35. With regard to the guidelines given by the CJEU, see CJEU, 9 November 2006, case C-281/05, *Montex v. Diesel*, para. 19.

<sup>19</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 60-61.

<sup>20</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 62.

<sup>21</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 63.

non-member State to another “without that operation being hindered, even by a temporary detention, by Member States’ customs authorities.”<sup>22</sup>

### 3. International Dimension

At the time, this confirmation of the freedom of transit constituted not only an important clarification of applicable EU law but also an important signal at the international level. As a result of the seizure of a shipment of the generic drug Losartan on its way from India to Brazil by customs authorities in Amsterdam, practices of seizing goods in transit in the EU had been exposed to harsh criticism at the international level.<sup>23</sup>

As a justification for the seizure in Amsterdam, the customs authorities could point to European patent rights of DuPont and Merck Sharp & Dohme. These rights, however, did enjoy protection neither in Brazil nor in India. The seizure itself rested on the so-called “manufacturing fiction” allowing Dutch customs authorities to assume that goods in transit have been produced in the country of transit (instead of the country of origin) when assessing an infringement of intellectual property rights. The Dutch Supreme Court had established the manufacturing fiction in *Philips v. Postech* – a case concerning the seizure of recordable CDs which had been in transit via the Netherlands on their way from Taiwan to Switzerland. Seeking to offer Philips the opportunity to invoke patent rights enjoying protection in the Netherlands against the goods in transit, the Dutch Supreme Court held in *Philips v. Postech* that the infringement analysis could be based on the assumption that the CDs had been produced in the Netherlands.<sup>24</sup>

Opposing the application of the manufacturing fiction in the *Losartan* case, India, Brazil, several other developing countries and the Indian producer Dr Reddy’s Laboratories qualified the transit seizure of Losartan as an attempt to artificially extend the territorial scope of EU patent rights and impede international trade.<sup>25</sup> In May 2010, India and Brazil formally complained before the WTO about the seizure of generic medicines in transit in the EU.<sup>26</sup> Ultimately, the case did not lead to a Panel Report under the WTO dispute settlement system. In the light of the CJEU decision in *Philips and Nokia*, there seemed to be little doubt that incidents, such as the seizure of Losartan in Amsterdam, belonged to the past. In the amended EU Customs Regulation No 608/2013, it was stated in Recital 11 that the seizure of medicines in transit required a “substantial likelihood of diversion of such medicines onto the market of the Union” – a standard that seems to reflect the outcome of the *Philips and Nokia* case.<sup>27</sup>

<sup>22</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 63.

<sup>23</sup> For an overview of further instances of in-transit seizure, see H. Große Ruse-Khan, “An international trade perspective on transit seizures”, *BMM Bulletin* 39 (2013), 142 (142).

<sup>24</sup> Dutch Supreme Court, 19 March 2004, *Nederlandse Jurisprudentie* 2007, 585. Cf. P.J. Sciarone, “Het arrest van de Hoge Raad inzake Philips/Postech en de Losartan-affaire – Deel I”, *Berichten industriële eigendom* 2012, 2 (4-6); S. Rinnert, “Die neue Customs-IP-Enforcement-Verordnung”, *Gewerblicher Rechtsschutz und Urheberrecht* 2014, 241 (242-243).

<sup>25</sup> H. Große Ruse-Khan, “An international trade perspective on transit seizures”, *BMM Bulletin* 39 (2013), 142 (143).

<sup>26</sup> Request for Consultations by India, 19 May 2010, WTO Document WT/DS408/1, European Union and a Member State – Seizure of Generic Drugs in Transit; Request for Consultations by Brazil, 19 May 2010, WTO Document WT/DS409/1, European Union and a Member State – Seizure of Generic Drugs in Transit.

<sup>27</sup> H. Große Ruse-Khan, “An international trade perspective on transit seizures”, *BMM Bulletin* 39 (2013), 142 (144).

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## 4. Specific EU Trade Mark Action

Against this background, it is surprising that the amendment of EU trade mark legislation has led to a new right of trade mark owners to take measures against goods in transit. Despite the international criticism triggered by the seizure of goods in transit in the *Losartan* case, EU policy makers decided to extend the scope of the exclusive rights of trade mark owners to goods in transit. As explained above, Article 9(4) EUTMR and Article 10(4) TMD entitle the trade mark proprietor “to prevent all third parties from bringing goods, in the course of trade, into the Member State where the trade mark is registered without being released for free circulation there, where such goods, including packaging, come from third countries and bear without authorization a trade mark which is identical to the trade mark registered in respect of such goods, or which cannot be distinguished in its essential aspects from that trade mark.”

In this context, the requirement of the conflicting sign being “identical to the trade mark registered in respect of such goods, or which cannot be distinguished in its essential aspects from that trade mark” makes it clear that the drafters intended to confine the scope of the provision to counterfeit goods. The formulation corresponds with the international definition of “counterfeit trademark goods” in footnote 14 of the TRIPS Agreement which accompanies the TRIPS provisions on border measures.

Admittedly, the *Losartan* case concerned patent rights. Article 9(4) EUTMR and Article 10(4) TMD deal with trade mark rights. While a patent protects a product incorporating a new technical solution as such, a trade mark only protects a sign identifying the commercial source of that product. This difference may have led EU policy makers to believe that, in practice, it would be easier to keep a sufficient distance from an EU trade mark than to invent around a patent that is protected in the EU. However, this assumption is doubtful in the case of generic medicine and the legitimate resale of genuine pharmaceutical products after the exhaustion of trade mark rights – cases where a reference to the trade-marked name of the original product may be necessary to inform consumers appropriately.<sup>28</sup> The assumption is also doubtful because trade mark rights increasingly acquire the status of products in their own right. As a result of substantial investment in marketing and advertising, the mark becomes a central part of the product, if not the main product feature in the eyes of consumers.<sup>29</sup> Moreover, the basic

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<sup>28</sup> Not surprisingly, this kind of cases generated quite some case law. In particular, see CJEU, 11 July 1996, cases C-427/93, C-429/93 and C-436/93, *BMS v. Paranova*, para. 79; CJEU, 12 October 1999, case C-379/97, *Upjohn*, para. 28 and 42; CJEU, 26 April 2007, case C-348/04, *Boehringer Ingelheim and Others*, para. 36; CJEU, 22 December 2008, case C-276/05, *The Wellcome Foundation*, para. 23; CJEU, 28 July 2011, cases C-400/09 and C-207/10, *Orifarm and Others*, para. 36. For an overview of issues in the area of repackaging, see M. Marell/M.R.F. Senftleben/M. Rieger-Jansen, “Trademark Enforcement Issues in the Pharmaceutical Industry”, in: J. de Werra (ed.), *Intellectual Property in the Pharmaceutical Industry*, Zurich: Schulthess 2012, 127, 139-141.

<sup>29</sup> With regard to the formal recognition of these enhanced functions of trade marks, see CJEU, 18 June 2009, case C-487/07, *L’Oréal/Bellure*, para. 58. As to the discussion about the legitimacy of protecting brand experience and goodwill, see M.A. Lemley/M.P. McKenna, “Owning Mark(et)s”, *Michigan Law Review* 109 (2010), 137 (#); B. Beebe, “Intellectual Property Law and the Sumptuary Code”, *Harvard Law Review* 123 (2010), 809 (848-859); M.R.F. Senftleben, “The Trademark Tower of Babel – Dilution Concepts in International, US and EC Trademark Law”, *IIC* 40 (2009), 45 (59); L. Bently/J. Davis/J.C. Ginsburg (eds.), *Trade Marks and Brands – An Interdisciplinary Critique*, Cambridge: Cambridge University Press 2008, 241; G.B. Dinwoodie/M.D. Janis, Dilution’s (Still) Uncertain Future, *Michigan Law Review First Impressions* 105 (2006), 98; B. Beebe, “Search and Persuasion in Trademark Law”, *Michigan Law Review* 103 (2005), 2020; M. Strasser, “The Rational Basis of Trademark Protection Revisited: Putting the Dilution Doctrine into Context”, *Fordham Intellectual Property, Media & Entertainment Law Journal* 10 (2000), 375; R.S. Brown, “Advertising and the Public Interest: Legal Protection of Trade Symbols”, *Yale Law Journal* 108 (1999), 1619 (1619-1620);

problem remains the same irrespective of differences in the configuration of patent and trade mark rights: a territorially limited intellectual property right enjoying protection in the EU is used as a universal yardstick to determine whether goods in transit constitute “counterfeit” goods. Although the goods are destined for another country, the question of counterfeiting is thus answered on the basis of the rights portfolio in the EU. In consequence, a manufacturer of goods seeking to ensure a smooth transit via the EU will have to avoid a conflict with an EU trade mark right even though he may be free to use an identical or very similar sign in the country of final destination. Similar to patent rights, trade mark rights may thus play the role of “wolves” rather than merely constituting “sheep” that ensure fair competition, safeguard market transparency and protect consumers against confusion.

The territorial scope of trade mark rights enjoying protection in the EU is thus artificially extended. If this strategy of enhancing the impact of EU trade mark rights on world trade is applied systematically, a certain degree of *de facto* protection of EU trade marks beyond the borders of the European Union can hardly be denied. Concerns about an encroachment upon the international guarantee of the freedom of transit are thus not unfounded – even if Article 9(4) EUTMR and Article 9(4) TMD “merely” concern trade mark rights which serve as identifiers of commercial source.

Considerations of this kind are not completely absent from the context surrounding the new specific trade mark right. In the light of the concerns about an undue curtailment of the international freedom of trade, the EU legislator sought to soften the effect of the new transit provisions. Apart from granting an exclusive right, Article 9(4) EUTMR and Article 10(4) TMD also stipulate that the entitlement of seizing goods in transit shall lapse

*“...if during the proceedings to determine whether the registered trade mark has been infringed, initiated in accordance with the provisions of Regulation (EU) No 608/2013 concerning customs enforcement of intellectual property rights, evidence is provided by the declarant or the holder of the goods that the proprietor of the registered trade mark is not entitled to prohibit the placing of the goods on the market in the country of final destination.”*

EU law thus seeks to safeguard the freedom of trade by imposing the obligation on a trader confronted with a transit seizure to show that the owner of a trade mark right in the EU does not have a corresponding right in the country of final destination. While this additional rule may have been deemed a sufficient concession during the legislative process, it may raise more problems than it solves in practice.

#### **4.1 Burden of proof**

The distribution of the burden of proof set forth in Article 9(4) EUTMR and Article 10(4) TMD is remarkable. On its merits, it reflects a bias in favour of the owner of trade mark rights in the EU. For the purposes of Article 9(4) EUTMR and Article 10(4) TMD, there seems to be a presumption that trade mark rights enjoying protection in (a part of) the EU also enjoy

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M. Lemley, “The Modern Lanham Act and the Death of Common Sense”, *Yale Law Journal* 108 (1999), 1687 (1694-1698); G.S. Lunney, Jr., “Trademark Monopolies”, *Emory Law Journal* 48 (1999), 367 (437-439); R.C. Dreyfuss, “We Are Symbols and Inhabit Symbols, so Should we be Paying Rent? Deconstructing the Lanham Act and Rights of Publicity”, *Columbia-VLA Journal of Law & Arts* 20 (1996), 123 (128); R. Dreyfuss, “Expressive Genericity: Trademarks as Language in the Pepsi Generation”, *Notre Dame Law Review* 65 (1990), 397 (413-414). As to the foundations of the dilution doctrine, see F.I. Schechter, “The Rational Basis of Trademark Protection”, *Harvard Law Review* 40 (1927), 813.

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protection in other parts of the world. Given this presumption, the declarant or the holder of the seized goods has to carry the burden of proving that such a right does not exist in the country of final destination. Article 9(4) EUTMR and Article 10(4) TMD require evidence “that the proprietor of the registered trade mark is not entitled to prohibit the placing of the goods on the market in the country of final destination.”

With this distribution of the burden of proof, Article 9(4) EUTMR and Article 10(4) TMD depart from the standard rule that the right holder – in this case the trade mark proprietor – must present all necessary evidence to support his infringement claim. As the goods are merely in transit in the EU and the infringement would finally take place in the country of final destination, it would have been more consistent to impose the burden of producing evidence of infringement in the country of final destination on the EU trade mark owner. Given the fact that intellectual property rights are territorially limited, goods that appear as “counterfeit trademark goods” in the light of EU trade mark rights may nonetheless be legitimate abroad if the right holder failed to secure corresponding trade mark rights in the country of final destination.<sup>30</sup>

Irrespective of these concerns about an unjustified bias in favour of EU trade mark owners, the distribution of the burden of proof can be explained with practical considerations. If the transit seizure really concerns counterfeit goods, the declarant or the holder of the goods is unlikely to take any steps. Practically speaking, it may thus make sense to impose the burden of proving the absence of infringement on the affected trader in order to separate the wheat from the chaff. If the declarant or the holder of the goods makes an effort to demonstrate non-infringement in the country of final destination, this fact alone might already indicate that the affected trader is not a counterfeiter.

Nonetheless, the fact remains that, on its merits, the responsibility for keeping international trade intact is to be borne by the trader who is confronted with a transit seizure in the EU.<sup>31</sup> This trader must produce proof of the absence of a trade mark infringement in the country of final destination. Moreover, a relatively light burden of proof would already have been sufficient to achieve the objective of separating the wheat from the chaff. In particular, it would have been sufficient to oblige the declarant or the holder of the goods to show that the trade mark at issue has not been registered in the country of final destination.

Nonetheless, the open wording of Article 9(4) EUTMR and Article 10(4) TMD (“...that the proprietor of the registered trade mark is not entitled to prohibit the placing of the goods on the market in the country of final destination”) leaves room for a much broader interpretation of the trader’s onus of proof. Taken to the extremes, evidence of a missing entitlement in the country of final destination may be understood to require a comprehensive legal analysis, including the question of trade mark protection against confusion because of mere similarity of signs, protection against dilution based on a mere risk of calling to mind the protected mark, and the inapplicability of limitations of trade mark rights that may tip the scales in favour of the declarant or holder of the seized goods. However, a requirement to conduct such a broad analysis would create a sharp contrast with the starting point of the transit seizure. As explained, the new right against goods in transit only covers counterfeit goods bearing an

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<sup>30</sup> H. Große Ruse-Khan, *The Protection of Intellectual Property in International Law*, Oxford: Oxford University Press 2016, 295-296.

<sup>31</sup> See also the critical comments by H. Große Ruse-Khan, *The Protection of Intellectual Property in International Law*, Oxford: Oxford University Press 2016, 295-296.



essentially identical sign. From this outset, questions of mere similarity or mere association with the trade mark seem extraneous and unjustified against this background.

Under a maximalist approach, the burden of proof may also be understood to include the question of a potential encroachment upon unregistered trade mark rights, such as rights concerning well-known marks in the sense of Article 6bis PC.<sup>32</sup> As Article 6bis PC leads to protection even if there is no registration,<sup>33</sup> it can be particularly difficult to ascertain the protection status in the country of final destination. In a country following the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks,<sup>34</sup> the threshold for acquiring protection as a well-known mark will be quite low.<sup>35</sup> Article 16(2) TRIPS stipulates that, in determining whether a trade mark is well-known, “Members shall take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.” Hence, the inquiry can hardly be confined to clear-cut cases of famous marks that can be expected to be known by the general consuming public all around the globe. The trade mark proprietor in the EU may thus use the legal uncertainty surrounding the determination of protection as a well-known mark in the country of final destination to make the process of proving the absence of trade mark infringement particularly burdensome. The EU trade mark owner may also prolong that process by explicitly asserting protection on the basis of Article 6bis PC or Article 16(2) TRIPS against mere register evidence produced by the declarant or holder of the goods.

#### 4.2 Reference to International Freedom of Trade

It seems that the drafters of Article 9(4) EUTMR and Article 10(4) TMD felt uneasy about this configuration of the exclusive right against transit goods themselves. They included several additional safeguards in the recitals accompanying the grant of the new exclusive right. Recital 15 EUTMR and Recital 21 TMD not only reflect the aim to “strengthen trade mark protection and combat counterfeiting more effectively” but also underline that this aim is to be achieved

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<sup>32</sup> As to the complexity of identifying well-known marks and country differences, see World Intellectual Property Organization, *WIPO Joint Recommendation Concerning the Protection of Well-Known Marks*, WIPO publication No. 833, Geneva: WIPO 2000; A. Kur, “Die WIPO-Vorschläge zum Schutz bekannter und berühmter Marken”, *GRUR* 1999, 866; Senftleben 2009, 50-55. As to different concepts of “well-known” marks in international, EU and US law, see M.R.F. Senftleben, “The Trademark Tower of Babel – Dilution Concepts in International, US and EC Law”, *International Review of Intellectual Property and Competition Law* 40 (2009), 45.

<sup>33</sup> As to the scope of protection envisaged at the international level, see Article 16(2) and (3) TRIPS and World Intellectual Property Organization, *WIPO Joint Recommendation Concerning the Protection of Well-Known Marks*, WIPO publication No. 833, Geneva: WIPO 2000.

<sup>34</sup> *WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks*, WIPO publication No. 833, Geneva: WIPO 2000.

<sup>35</sup> As to the level of international harmonization of the standard of “well-known” and remaining differences at the national level, see A. Kur, “Die WIPO-Vorschläge zum Schutz bekannter und berühmter Marken”, *Gewerblicher Rechtsschutz und Urheberrecht* 1999, 866; M.R.F. Senftleben, “The Trademark Tower of Babel – Dilution Concepts in International, US and EC Law”, *International Review of Intellectual Property and Competition Law* 40 (2009), 45; J.T. McCarthy, “Dilution of a Trademark: European and United States Law Compared”, *Trademark Reporter* 94 (2004), 1163; B. Beebe, “A Defense of the New Federal Trademark Antidilution Law”, *Fordham Intellectual Property, Media & Entertainment Law Journal* 16 (2006), p. 1143 (1146-1147 and 1174).

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*“...in line with international obligations of the Member States under the World Trade Organisation (WTO) framework, in particular Article V of the General Agreement on Tariffs and Trade on freedom of transit and, as regards generic medicines, the ‘Declaration on the TRIPS Agreement and public health’ adopted by the Doha WTO Ministerial Conference on 14 November 2001.”*

The reference to the Doha Declaration is understandable in the light of the aforementioned *Losartan* case that gave rise to the described delicate debate about shipments of generic medicines at the international level. It also forges a link with Recital 11 of the EU Customs Regulation No 608/2013 which confirms, in the light of the Doha Declaration, “WTO Members’ right to protect public health and, in particular, to promote access to medicines for all.”

The direct reference to Article V GATT, however, is surprising. With this reference to an international free trade norm, Recital 15 EUTMR and Recital 21 TMD subject the application of the new exclusive right against goods in transit to a scrutiny in the light of international trade standards. As the application of the new right against goods in transit should be “in line with international obligations of the Member States under the World Trade Organisation (WTO) framework”, it can be argued that the right cannot be invoked if this would lead to an encroachment upon Article V GATT. Recital 23 TMD indicates in this respect that EU policy makers saw the opportunity for the declarant or the holder of the seized goods to prove non-infringement in the country of final destination and, as a result, eliminate the trade mark proprietor’s entitlement to seizure, as a way of reconciling “the need to ensure the effective enforcement of trade mark rights with the necessity to avoid hampering the free flow of trade in legitimate goods”. In the light of the described concerns about an overbroad interpretation of the trader’s onus of proof, the question arises whether this safeguard is sufficient to ensure compliance with Article V GATT.

## **5. Conflict with International Freedom of Transit**

The regulation of the freedom of transit in Article V GATT commences in paragraph 1 with the following definition of “traffic in transit”:

*“[g]oods (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’.”*

Based on this definition, Article V(2) GATT establishes the general rule of freedom of transit by positing that

*“[t]here 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.”*

In *Colombia – Ports of Entry*, a WTO Panel clarified that this international obligation required “unrestricted access via the most convenient routes” for transit goods whether or not

the goods had been trans-shipped, warehoused, break-bulked, or had changed modes of transport. Goods in transit from any WTO Member had to be allowed entry for the passage of goods whenever destined for the territory of a third country.<sup>36</sup> This freedom, however, is not absolute. Article V(3) GATT makes it clear that

*“[a]ny contracting party may require that traffic in transit through its territory be entered at the proper custom house, but, except in cases of failure to comply with applicable customs laws and regulations, such traffic coming from or going to the territory of other contracting parties shall not be subject to any unnecessary delays or restrictions...”*

On the one hand, Article V(3) GATT thus offers room to argue that the new EU trade mark right against goods in transit is part of the applicable set of “customs laws and regulations” with which traders shipping goods through the EU have to comply.<sup>37</sup> On the other hand, Article V(3) GATT leaves little doubt that this freedom has its limits: “unnecessary delays or restrictions” are unacceptable and amount to a violation of the international guarantee of free transit. Hence, it may be argued that the procedure following the seizure of goods in transit leads to unnecessary delays or restrictions because it imposes the burden on affected traders to provide evidence of non-infringement in the country of final destination – potentially including evidence of the absence of sign similarity or association, and protection on the basis of Article 6*bis* PC and Article 16(2) TRIPS.<sup>38</sup>

The delay caused by a transit seizure can be considerable anyway. In the *Losartan* case, for instance, the generic drugs at issue had first been held up temporarily in the Netherlands. Subsequently, they were returned to India instead of ensuring shipment to the intended final destination which was Brazil.<sup>39</sup> Not surprisingly, the issue of unnecessary delays and restrictions of international trade featured prominently in India’s formal request for consultations before the WTO.<sup>40</sup> As explained above, the CJEU itself emphasized in *Philips and Nokia* that, considering the policy objective to abolish trade restrictions, goods had to be able to pass in transit via the EU “without that operation being hindered, even by a temporary detention, by Member States’ customs authorities.”<sup>41</sup>

Another reference point for casting doubt upon compliance of the new trade mark right against goods in transit can be found in Article V(4) GATT. According to this provision, “[a]ll charges and regulations imposed by contracting parties on traffic in transit to or from the territories of other contracting parties shall be reasonable, having regard to the conditions of the traffic.” This further international rule offers the possibility of arguing that the new trade mark right against goods in transit in the EU constitutes an unreasonable regulation: due to the territorial nature of trade mark rights, the EU can hardly have a legitimate interest in applying its territorially limited rights to goods that are not destined for EU consumers. The new trade mark right appears as a disproportionate attempt to embark on unjustified world

<sup>36</sup> WTO Panel, 27 April 2009, WTO Document WT/DS366/R, Colombia – Ports of Entry, para. 7.401.

<sup>37</sup> However, see the serious doubts expressed by H. Große Ruse-Khan, “An international trade perspective on transit seizures”, *BMM Bulletin* 39 (2013), 142 (147).

<sup>38</sup> H. Große Ruse-Khan, *The Protection of Intellectual Property in International Law*, Oxford: Oxford University Press 2016, 297-299.

<sup>39</sup> H. Große Ruse-Khan, “An international trade perspective on transit seizures”, *BMM Bulletin* 39 (2013), 142 (142).

<sup>40</sup> Request for Consultations by India, 19 May 2010, WTO Document WT/DS408/1, European Union and a Member State – Seizure of Generic Drugs in Transit, p. 2.

<sup>41</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 63.

policing<sup>42</sup> – unjustified because the effort made to stop counterfeit goods is primarily based on trade mark rights existing in the EU. The whole question of counterfeiting is viewed through the prism of a protected legal position in the EU – as if legal protection in the EU automatically implied legal protection around the globe.

## 5.1 Broader GATT context

In the light of Article V GATT, Article 9(4) EUTMR and Article 10(4) TMD are thus exposed to a serious risk of challenges based on the international guarantee of the freedom of transit. The consideration of the broader treaty context in which Article V GATT is embedded, does not change this outcome of the analysis. Admittedly, Article XX(d) GATT offers room for the adoption and enforcement of measures

*“...necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to [...] the protection of patents, trademarks and copyrights, and the prevention of deceptive practices...”*

As the TRIPS Agreement constitutes Annex 1C to the Marrakesh Agreement Establishing the World Trade Organization and thus the 1994 GATT treaty package, it can hardly be deemed inconsistent to seek to ensure the protection of trade marks in the EU. Article 41(1) TRIPS further supports this argument by establishing the international obligation of contracting parties to

*“ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.”*

Even this escape route, however, does not offer full clarity about the compliance of Article 9(4) EUTMR and Article 10(4) TMD with international law. Firstly, the scope of Article 41(1) TRIPS is explicitly confined to “enforcement procedures as specified in this Part”. This is a reference to Part III of the TRIPS Agreement dealing with “Enforcement of intellectual property rights”. Within Part III, there are provisions, such as Article 51 TRIPS, which explicitly set forth measures against counterfeit goods. These provisions, however, are silent on goods in transit.<sup>43</sup> Instead, Article 51 TRIPS refers to the risk of “release into free circulation” which, by definition, would not arise in the EU in the case of goods in transit. Article 51 TRIPS also reflects the possibility of taking measures against counterfeit goods “destined for exportation” from the territory of a contracting party, such as the EU or an EU Member State. However, goods in transit are not “destined for exportation”. They are simply on their way through the EU. The accompanying footnote 13 clarifies that Article 51 TRIPS should not be understood to oblige WTO Members to apply procedures for suspending the release of goods “to imports of goods put on the market in another country by or with the

<sup>42</sup> Cf. H. Große Ruse-Khan/T. Jäger, “Policing Patents Worldwide? EC Border Measures Against Transiting Generic Drugs under EC and WTO Intellectual Property Regimes”, *International Review of Intellectual Property and Competition Law* 40 (2009), 502.

<sup>43</sup> H. Große Ruse-Khan, *The Protection of Intellectual Property in International Law*, Oxford: Oxford University Press 2016, 309. As pointed out by F. Eijssvogels, “The new Customs Regulation, the Commission’s proposals relating to trademarks and transit – Back to previous Dutch practice?”, *BMM Bulletin* 39 (2013), 135 (141), the application of Articles 51 and 52 TRIPS in respect of goods in transit would require a “manufacturing fiction” allowing the qualification of the country of transit as “country of importation”.

consent of the right holder, or to goods in transit.” Legitimate parallel trade and goods in transit are thus explicitly kept outside the scope of the international obligation.

## 5.2 No Circular Line of Reasoning

More generally, Article 41(1) TRIPS provides that enforcement procedures “shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.” Similarly, the application of Article XX(d) GATT is subject to the proviso that the protection of patents, trade marks and copyrights, and the prevention of deceptive practices does not lead to measures “applied in a manner which would constitute [...] a disguised restriction on international trade...”

These provisions prevent a circular line of reasoning. Under Article 1(1) TRIPS, WTO Members are free to implement more extensive protection than required by the TRIPS Agreement, “provided that such protection does not contravene the provisions of this Agreement.” In principle, the EU thus enjoys the freedom of providing for protection against goods in transit even though this protection is not reflected in the TRIPS Agreement itself.<sup>44</sup> This freedom, however, must not be misused to frustrate objectives underlying the Agreement. As Article 41(1) TRIPS and the broader GATT context demonstrate, the avoidance of barriers to legitimate trade is one of these objectives. Goods that appear as “counterfeit trademark goods” from an EU perspective, however, may be legitimate from the perspective of foreign trade mark systems. Hence, the EU is not free to impose its own assessment of counterfeit goods on other countries.

If Article 10(4) EUTMR and Article 9(4) TMD are regarded as a “barrier to legitimate trade” or a “disguised restriction on international trade”, a potential attempt to justify the new exclusive right of EU trade mark owners in the light of the enforcement provisions of the TRIPS Agreement is thus doomed to fail from the outset.<sup>45</sup> As Henning Große Ruse-Khan concludes, “good arguments support a finding that an expansion of IP rights to cover as infringement the mere transit of goods without any further connection to the territory of the IP-granting state, in particular any evidence for the goods being diverted onto the domestic market, is inconsistent with Art. V GATT. Such an expansion in itself can further not be justified under Art. XX(d) GATT as it is not necessary to secure compliance with TRIPS.”<sup>46</sup>

## 5.3 Cautious Approach Required

The new exclusive right of trade mark proprietors in the EU against goods in transit thus raises complex questions of compliance with the international guarantee of freedom of transit set forth in Article V GATT. In the light of the applicable international provisions, the status of the new trade mark right in the EU must at least be qualified as ambiguous. It is conceivable that the invocation of the right will be challenged at the WTO on the ground that

<sup>44</sup> F. Eijssvogels, “The new Customs Regulation, the Commission’s proposals relating to trademarks and transit – Back to previous Dutch practice?”, *BMM Bulletin* 39 (2013), 135 (141).

<sup>45</sup> In this sense H. Große Ruse-Khan, *The Protection of Intellectual Property in International Law*, Oxford: Oxford University Press 2016, 309. Cf. also H. Große Ruse-Khan/T. Jäger, “Policing Patents Worldwide? EC Border Measures Against Transiting Generic Drugs under EC and WTO Intellectual Property Regimes”, *International Review of Intellectual Property and Competition Law* 40 (2009), 502 (524-530), who see the TRIPS Agreement as an international “ceiling” barring the adoption of border measures against goods in transit.

<sup>46</sup> H. Große Ruse-Khan, “An international trade perspective on transit seizures”, *BMM Bulletin* 39 (2013), 142 (148).

it leads to an unjustified impediment of international trade. As the new EU trade mark legislation requires the application of Article 9(4) EUTMR and Article 10(4) TMD in line with international standards, in particular Article V GATT, courts in the EU will have to cope with the complexity of the international legal framework and develop workable solutions by applying an amalgam of EU and international law. The final result – and perhaps the most practical solution – may be an exclusive right with a rather limited scope. Given the serious risk of an encroachment upon the international freedom of transit, a cautious approach is advisable when applying Article 9(4) EUTMR and Article 10(4) TMD.

In particular, courts will have to take into account the necessity test following from Article XX(d) GATT. As explained, a transit seizure must be “necessary” to secure compliance with domestic laws protecting trade mark rights in order to be justified under international law. However, the necessity test of Article XX(d) GATT cannot be met in the case of goods destined for a country outside the EU. By definition, an encroachment upon EU trade mark rights is excluded in such a case.<sup>47</sup> A seizure of transit goods can only be necessary, if there is a substantial likelihood of diversion onto the EU market. Hence, the new right granted in Article 9(4) EUTMR and Article 10(4) TMD can hardly go beyond the standard of protection reached in the *Philips and Nokia* decision of the CJEU.<sup>48</sup> Considering the international guarantee of free transit, the status quo established in *Philips and Nokia* should thus remain unchanged to the greatest extent possible.

If a broader scope of application is nonetheless deemed possible under the new exclusive right, the described prohibition of unnecessary delays or restrictions following from Article V(3) GATT, in any case, precludes the imposition of a heavy burden of proof with regard to non-infringement in the country of final destination. As explained above, proof including the absence of sign similarity or association, and protection on the basis of Article 6*bis* PC or Article 16(2) TRIPS is unnecessary and disproportionate for achieving the practical result of separating the wheat from the chaff by obliging the declarant or holder of the goods to actively take steps against the transit seizure. Hence, the burden of proof must be limited, for instance, by confining the inquiry to trade marks registered in the country of final destination.

## 5.4 Medicinal Products

Considering the explicit reference to the Doha Declaration in Recital 15 EUTMR, Recital 21 TMD and Recital 11 EU Customs Regulation No 608/2013, a cautious approach observing – to the greatest extent possible – the limits set forth in *Philips and Nokia* is of even bigger importance when the goods at issue are medicinal products.<sup>49</sup> Not surprisingly, Recital 19 EUTMR and Recital 25 TMD insist on appropriate measures to ensure the smooth transit of generic medicines. These recitals clarify that with respect to international non-proprietary names (INNs), the trade mark proprietor should not have the right to prevent a third party from bringing transit goods into the EU on the basis of similarities between the INN for the active ingredient in the medicines and the trade mark.

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<sup>47</sup> Cf. H. Große Ruse-Khan, “An international trade perspective on transit seizures”, *BMM Bulletin* 39 (2013), 142 (148); H. Große Ruse-Khan, *The Protection of Intellectual Property in International Law*, Oxford: Oxford University Press 2016, 310.

<sup>48</sup> CJEU, 1 December 2011, cases C-446/09 and C-495/09, *Philips and Nokia*, para. 57.

<sup>49</sup> Cf. H. Große Ruse-Khan/T. Jäger, “Policing Patents Worldwide? EC Border Measures Against Transiting Generic Drugs under EC and WTO Intellectual Property Regimes”, *International Review of Intellectual Property and Competition Law* 40 (2009), 502 (530-533).

At the international level, the need to keep INNs free has explicitly been recognized. In 1993, the World Health Assembly endorsed resolution WHA46.19 which states that trade marks should not be derived from INNs and INN stems should not be used as trade marks. It was recognized in this context that use of INNs should remain in the public domain because a practice of using INNs as trade marks could frustrate the rational selection of INNs and ultimately compromise the safety of patients by promoting confusion in drug nomenclature. Lists of Proposed and Recommended INNs are published regularly following meetings of the World Health Organization INN Expert Group.<sup>50</sup>

Hence, the clarification in Recital 19 EUTMR and Recital 25 TMD that a transit seizure cannot be based on similarities between an INN and a protected trade mark seeks to exclude the strategic use of drug brand names which are based on the INN for the active ingredient in the medicine, as a weapon against generic drugs in transit using the same INN.<sup>51</sup> Producers of generic medicines should not be forced to avoid the use of an INN to ensure the smooth transit via the EU.

While this objective is laudable,<sup>52</sup> the need to highlight this self-evident result in Recital 19 EUTMR and Recital 25 TMD sheds light on the inroads made into the freedom of transit. The freedom of using INNs might be preserved. Outside the field of INNs, however, producers of generic medicines will have to take EU trade marks into account to avoid a delay of the shipment through the EU. To ensure a smooth transit without burdensome procedures and a lengthy exchange of arguments about trade mark protection in the country of final destination, a producer of generic medicines will have to check the pharmaceutical trade marks enjoying protection in the EU and refrain from the use of (essentially) identical signs insofar as this is possible without compromising the adequacy of consumer information. The EU thus imposes its own trade marks as a reference point for judging the legitimacy of trade marks used on medicinal products for other countries where the EU trade marks involved do not necessarily enjoy protection.

## 7. Conclusion

In the light of the international guarantee of the freedom of transit in Article V GATT, the new trade mark right against goods in transit granted in Article 9(4) EUTMR and Article 10(4) TMD is particularly problematic. Its application entails the risk of encroaching upon the freedom of transit and impeding international trade. Against this background, a cautious approach is necessary seeking to preserve the status quo reached in the EU after the CJEU decision in *Philips and Nokia*. This result can be achieved on the basis of a restrictive interpretation of the new right in line with the international obligation to guarantee the

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<sup>50</sup> With regard to trademarks and INNs, see WIPO Documents SCT/24/5, dated 31 August 2010, SCT/19/4, dated 27 May 2008, and SCT/18/6, dated 12 September 2007, available at: [www.wipo.int/sct](http://www.wipo.int/sct). Lists of Recommended and Proposed INNs are available at: [www.who.int/medicines/publications/druginformation/innlists/en/index.html](http://www.who.int/medicines/publications/druginformation/innlists/en/index.html). For a discussion of the impact of brand names on therapeutic standards, see J.A. Greene, "What's in a Name? Generics and the Persistence of the Pharmaceutical Brand in American Medicine", *Journal of the History of Medicine and Allied Sciences* 66 (2011), p. 468.

<sup>51</sup> Cf. H. Große Ruse-Khan, "An international trade perspective on transit seizures", *BMM Bulletin* 39 (2013), 142 (146); S.M. Flynn/B. Madhani, "ACTA and Access to Medicines", *WCL Research Paper* No. 2012-03, Washington: American University 2011, available at <http://ssrn.com/abstract=1980865>.

<sup>52</sup> It remains to be seen whether the recital will lead to sufficient room for the use of INNs. Cf. the critical comments by H. Große Ruse-Khan, *The Protection of Intellectual Property in International Law*, Oxford: Oxford University Press 2016, 294-295.

freedom of transit, as reflected in Recital 15 EUTMR and Recital 21 TMD. In particular, it is of crucial importance to take into account that the starting point for the transit seizure is the qualification of the goods concerned as counterfeit goods bearing an essentially identical sign. Accordingly, the burden of proof imposed on the declarant or holder of the seized goods must also remain confined to the question whether the goods would be regarded as counterfeit in the country of final destination.

In other words, the burden of proof must not be misunderstood to require a comprehensive legal analysis, including the question of trade mark protection against confusion because of mere similarity of signs, and protection against dilution based on a mere risk of calling to mind the protected mark. With regard to limitations of trade mark protection that may support the activities of the declarant or holder, it should be sufficient to provide evidence of the existence of relevant exemptions in the country of final destination to dissolve the assumption that the trade mark proprietor can take steps against the marketing of the goods. In addition, the burden of proof should not include the question of a potential encroachment upon unregistered trade mark rights, such as rights concerning well-known marks in the sense of Article 6*bis* PC. By contrast, it should be sufficient for the declarant or holder of the goods to show that the trade mark is not registered in the country of final destination.

The described risk of an impediment of world trade because of unnecessary delays caused by an overbroad burden of proof is not confined to the EU territory. Potential trans-regional repercussions of an evolving EU practice of seizing goods in transit must be factored into the equation. Article 18.76.5 of the Trans-Pacific Partnership Agreement (TPP) stipulates that each Contracting Party to that Agreement

*“shall provide that its competent authorities may initiate border measures ex officio with respect to goods under customs control that are:*

- (a) imported;*
- (b) destined for export; or*
- (c) in transit;*

*and that are suspected of being counterfeit trademark goods or pirated copyright goods.”*

Admittedly, this provision only concerns an optional seizure of goods in transit (“may initiate border measures”) that remains at the discretion of customs authorities.<sup>53</sup> Nonetheless, it cannot be ruled out that the implementation of the TPP leads to a proliferation of the practice of transit seizures. An overbroad application of Article 9(4) EUTMR and Article 10(4) TMD in the EU may thus be a dangerous precedent. If EU customs authorities give a bad example of transit seizures, this practice could finally lead to even broader inroads into the international guarantee of free transit. If countries in the trans-Pacific region adopt a similar approach, the territorial limits of intellectual property rights will increasingly be blurred and intellectual property will become an increasingly heavy burden for world trade. Also from this

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<sup>53</sup> In practice, instances where customs authorities take action on their own initiative may be relatively scarce. EU statistics show that the number of *ex officio* actions has decreased considerably in recent years. See the overview given in European Commission, *Report on EU Customs Enforcement of Intellectual Property Rights – Results at the Border 2014*, Luxembourg: Publications Office of the European Union 2015, available at [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/statistics/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics/index_en.htm), 10, showing low percentages of *ex officio* actions in recent years: 2.62% in 2012, 3.06% in 2013 and 1.73% in 2014. European Commission, *Report on EU Customs Enforcement of Intellectual Property Rights – Results at the Border 2011*, Luxembourg: Publications Office of the European Union 2012, 9, shows a percentage of 26.50% in 2008, 9.62% in 2009, 4.02% in 2010, and 2.80% in 2011. Cf. O. Vrins, “Regulation 608/2013: Towards a more effective customs enforcement of intellectual property rights?”, *BMM Bulletin* 39 (2013), 118 (122-123).



broader perspective, a particularly cautious approach to Article 9(4) EUTMR and Article 10(4) TMD is indispensable.