



## Trademark Enforcement within the European Union: The Development of Provisions Concerning Counterfeit Goods in Transit

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Trademark Enforcement within the European Union: The Development of Provisions  
Concerning Counterfeit Goods in Transit

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**Abstract**

*The article aims to examine the legal situation relating to counterfeit goods in transit and the responsibilities of intermediaries in the transport of such goods within the European Union (EU). Reference will be made to regulations that preceded Regulation 1383/2003 and the amendments brought about by such regulations. The development of laws concerning border measures within the EU has been rapid, however, despite the implementation of Regulation 1383/2003, the problem of counterfeit goods passing through the EU still stands. Furthermore, in Philips/Nokia, the European Court of Justice (ECJ) held that goods coming from non-member states and held by customs under suspended procedures could be detained if suspected that they may be diverted into the EU markets. However, the manufacturing fiction doctrine may not be taken into consideration when assessing infringement, as actual proof of infringement is required. This places a high burden of proof on trademark owners, as the mere existence of an indication that the goods will be put on the EU market is not sufficient. There must be substantive evidence such as advertising, offer for sale, or actual sale. The issue with this approach is the difficulty for trademark owners to prove or have access to the information to meet this burden of proof as only the parties involved in the transshipment have the relevant information. This article aims to make several proposals in respect of remedying counterfeits in transit within the EU. It will provide analysis that will contribute to the balancing between the Customs regulation and international trade obligations.*

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## **1. Introduction**

### **1.1 Background**

This paper examines the law relating to counterfeit goods in transit and the responsibilities of intermediaries in the transport of such goods within the European Union. It is a critical examination assessing infringement and the burden of proof on trademark owners. Furthermore, for comparative purposes, this paper will draw on United States case law and relevant provisions concerning border measures to demonstrate its current position on counterfeit goods in transit. Finally, this paper makes proposals for a more viable balance between customs regulations and international trade obligations in terms of remedies against counterfeiting in transit, whilst ensuring that those remedies remain enforceable in practical terms and consistent with the fundamental principles of European Commission (EC) law.

### **1.2 Socioeconomic effects of counterfeit goods**

The global trade in counterfeit goods is substantial: the Organisation for Economic Cooperation and Development OECD estimates that the global trade in counterfeit goods was \$200 billion U.S. in 2005, with a substantial year-on-year pattern of growth.<sup>1</sup> European Union customs officials suspended or detained in excess of one hundred and three (103) million products that were suspected of infringing an intellectual property right.<sup>2</sup>

This paper aims is to provide proposals which will have the effect of minimizing the

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<sup>1</sup> Organisation for Economic Co-operation and Development, "The Economic Impact of Piracy and Counterfeiting," Accessed May 20, 2013. <http://www.oecd.org/dataoecd/13/12/38707619.pdf>

<sup>2</sup> Vrins, Olivier, The European Commission's proposal for a regulation concerning Customs enforcement of IP rights, *J. Intell. Prop. Law & Prac.* 6, no. 11 (2011): 774-805.

socioeconomic effects of this trade. Trade in counterfeit goods weakens the strength of intellectual property rights within the EU and causes corresponding economic damage to the value of European brands and business interests. The purely economic losses to holders of registered intellectual property rights have been estimated in excess of €1 billion Euros.<sup>3</sup> These economic losses have profound social implications in terms of damage to the labor market, a corresponding decrease in investment by major global brands, and a weakening of the global perception of the ability of the EU to appropriately protect intellectual property rights across the Member States.

### **1.3 The Community Customs Code**

The Community Customs Code (Community) forms the necessary legal background of the protection of intellectual property rights of goods that are in transit through EU territory and are therefore regulated by the customs provisions of the Member States and EC law. The purpose of the Code is to facilitate trade between the community and third countries and to materially facilitate the free movement of goods and services within the internal market.

### **1.4 Customs Transit Procedure**

The Community operates a customs transit procedure under which goods can be moved between discrete areas within any Member State or between multiple Member States with ease. As explained in the EC guidance, the transit system “allows for the temporary suspension of duties, taxes, and commercial policy measures that are applicable at import, thereby allowing customs clearance formalities to take place at the destination rather than at the point of entry into the customs territory.”<sup>4</sup>

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<sup>3</sup> Vrins, “The European Commission's proposal for a regulation concerning Customs enforcement of IP rights,” 776.

<sup>4</sup> What is Customs Transit?, European Commission: Taxation and Customs Union, (May 20, 2013), [http://ec.europa.eu/taxation\\_customs/customs/procedural\\_aspects/transit/](http://ec.europa.eu/taxation_customs/customs/procedural_aspects/transit/)

## 2. Enforcement of Border Measures Against Counterfeit Goods

### 2.1 Council Regulation (EC) no 1383/2003

EU intellectual property law is firmly embedded within the global context of intellectual property regulation.<sup>5</sup> Regulation 1383/2003 – known as the ‘Customs Regulation’ – forms the backbone of Community protection of intellectual property within the customs union itself. In summary, the Regulation provides for a process by which suspected counterfeit goods can be suspended upon importation to a Member State.

The aims and objectives of the Regulation are set out succinctly and comprehensively by Vrins.<sup>6</sup> Quite simply, the Regulation seeks to exclude counterfeit goods from the internal market, whilst simultaneously ensuring that any economic gains made from the sale of those goods ensuring that those who operate in breach of Community intellectual property protection are deprived of any economic gains.

### 2.2 Administrative Procedures

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<sup>5</sup> Ruse-Khan, Henning Grosse, *Trade Agreement Creating Barriers to International Trade: ACTA Border Measures and Goods in Transit*, Am. U. Int'l L. Rev. 26, no. 3 (2011): 645-726; Jaeger, Thomas T., *The EU Approach to IP Protection in Partnership Agreements*, Max Planck Institute for Intellectual Property, Competition & Tax Law Research Paper Series (2007): No. 10-01.

<sup>6</sup> “Regulation 1383/2003 sought not only to set out the conditions for action by customs authorities confronted with goods suspected of infringing IPRs, but also to determine the measures to be taken by the competent authorities from the Member States when such goods were eventually found to have infringed IPRs. Thus, it required the Member States to take measures to prohibit the placing into circulation of such goods on the customs territory of the EU, or their removal from the EU, while ensuring that the goods would be disposed of outside commercial channels and that the persons concerned would be deprived of any economic gains from the transactions. It also required Member States to *introduce effective, proportionate, and dissuasive penalties* to apply ‘in cases of violation of th[e] Regulation’.” [emphasis added]. Vrins, “The European Commission's proposal for a regulation concerning Customs enforcement of IP rights,” 777..

The Customs Regulation (Regulation 1383/2003) sets out a two-tier procedure under which suspected counterfeit goods could be suspended pending an application for enforcement of the Regulation made by the right-holder. The first process is an application for enforcement made by the right-holder; the second allows for suspension of goods to be made ex officio, pending formal judicial procedures.<sup>7</sup> Regulation 1383/2003 provides the framework within which intellectual property rights are protected in the customs context. The Regulation aims to address the problem of counterfeit goods entering the internal market by empowering local customs authorities to suspend goods upon entry, provided either that a valid application has been lodged with the custom authority or that the authority itself has sufficient grounds to believe that the goods are counterfeit and that a protected right has been infringed. Consistent with the fundamental principles of EC law, the Regulation is intended to comply with the principles of proportionality and to provide effective penalties. Moreover, the simplified procedure enables such goods to be disposed of quickly and efficiently where the owner and right-holder are in agreement that destruction is appropriate without further recourse to the relevant judicial authorities.

### 2.2.1 Application for enforcement

Under the primary procedure, the holder of an intellectual property right may lodge an application with the relevant customs authority to alert them to the transit of suspected counterfeit goods, and to request an order that the authority will detail such goods at the border. The application may be of national reach where only one Member State is affected, or a Community order can be procured where the goods are likely to transit through multiple Member States. In each case, the application must demonstrate that the applicant is the relevant intellectual property right-holder and provide an accurate description of the goods, together with any information that is available regarding the infringement, such as the name or reference of the consignor.

### 2.2.2 Ex Officio

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<sup>7</sup> Bonadio, Enrico, *Protecting intellectual property rights through EU customs procedures*, International Trade Law & Regulation 14, no. 4 (2008): 7 *et seq.*



Under Article 4.1 of the Customs Regulation, customs authorities are also granted the power to suspend goods from release into the internal market independent of an application. This power is granted where the customs authorities believe that there are sufficient grounds to suspect that goods are counterfeit or are otherwise being shipped in violation of Community-protected intellectual property rights. The informality and discretionary nature of the *ex officio* process are significant advantages for small and medium-sized right-holders that would not otherwise have the resources to track infringements of their rights with a view to making a formal application for enforcement; the subsequent notification by customs authorities ensures that proper procedure is followed after suspension *ex officio*.<sup>8</sup>

### 2.2.3 Simplified Procedure

Finally, the Regulation provides for a simplified procedure, which permits customs authorities to destroy suspected counterfeit goods without requiring judicial consideration of their status as infringing a protected right. The simplified procedure can only be used with the permission of both the right-holder and the owner of the goods, and is subject to the right-holder informing the customs authorities that the relevant goods infringe Community intellectual property law. The destruction of the goods is then carried out at the expense of the right-holder. The requirement of party agreement is useful insofar as it facilitates swift resolution of disputes without lengthy or costly judicial intervention, but also because it allows the parties to maintain confidentiality; to the extent that the central goal of this procedure is to maintain market reputation, parties to a trademark dispute have obvious concerns for the impact that public counterfeit disputes can have on their reputation within the industry.

## 2.3 Council Regulation (EC) no 608/2013

The new EU Regulation 608/2013, repealing Council Regulation 1383/2003, came into force 19 July 2013<sup>9</sup>. The new Regulation will further strengthen border measures within the EU against counterfeit

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<sup>8</sup> *Id.*

<sup>9</sup> Its provisions now have direct effect on Member States since the 1<sup>st</sup> of January 2014.

and pirated goods<sup>10</sup>. Furthermore, its provisions make it easier to destroy these goods following their seizure. A notable change the New Enforcement Customs Regulation brings is a simplified procedure for goods to be destroyed without a court order. In addition, right holders no longer need to give their consent to each consignment, particularly if these consignments are small, as they may be subject to destruction<sup>11</sup>.

Nonetheless, there still remains concern regarding areas that have not been addressed by the New Customs Enforcement Regulation. For instance, it does not address the issues that have arisen following the *Philips* and *Nokia* decision. Further, the Regulation does not change its current position on customs authorities' seizure of parallel imports.

In light of the above, the Commission's draft proposal for changes to the Community Trademark Regulation and the potential introduction of a new Trademark directive<sup>12</sup> may shed some new light in the possible impact of the decision in *Philips* and *Nokia*<sup>13</sup>. It may go as far as overturning the decision in respect of counterfeit goods infringing registered trademark rights.

The main key provisions of the new Customs Regulation are as follows:

- (i) Regulation 1383/2003 provided an option simplified procedure where member states may give customs authorities the power to destroy goods without a court order providing the right holder and holder/declarant of the goods do not object. The new Regulation adopts the simplified procedure as a compulsory procedure across all member states. Furthermore, customs will assume that the holder/declarant has agreed where there has been no objection within 10 days of notification<sup>14</sup>.

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<sup>10</sup> Wipo, 'Regulation (Eu) No 608/2013 Concerning Customs Enforcement of Intellectual Rights', *Official Journal of the European Union* <[http://www.wipo.int/wipolex/en/text.jsp?file\\_id=312508](http://www.wipo.int/wipolex/en/text.jsp?file_id=312508)>, accessed 2nd June 2014.

<sup>11</sup> Ibid.

<sup>12</sup> The Commission anticipates the adoption of its proposals in Spring 2014

<sup>13</sup> Roland Knaak, Annette Kur, and Alexander Von Mühlendahl, 'The Study on the Functioning of the European Trade Mark System', *Max Planck Institute for Intellectual Property & Competition Law Research Paper*, /12-13 (2012). —

<sup>14</sup> Trevor Cook, 'Revision of the European Union Regime on Customs Enforcement of Intellectual Property Rights', *Journal of Intellectual Property Rights*, 18 (2013), 485-90.

- (ii) The new Regulation now covers a wide range of intellectual property rights not available in Regulation 1383/2003. It covers rights in relation to trade names, plant varieties, semiconductor topographies, and circumvention devices and utility models<sup>15</sup>.
- (iii) Right holders can now make an application for general destruction, which result in the destruction of small parcels or express courier consignments<sup>16</sup> without the right holder's consent for each instance of destruction<sup>17</sup>. This is seen as crucial in light of the rise in online shopping and increase in small consignments<sup>18</sup>.
- (iv) A centralized database<sup>19</sup> has been created so that customs authorities in each member state are required to exchange information and improve communication among them<sup>20</sup>.

However, the new Customs Enforcement Regulation has failed to address the concerns following the decision in *Philips* and *Nokia*. Therefore, customs only have the power to seize goods in transit where there is 'substantial' likelihood that the goods will be re-routed for sale within the EU markets. Despite that, the new Regulation gives customs the power to share information with customs authorities in third countries, namely the countries that are the intended destination of the goods.

Further concerns surround the burden of paying for storage, which still falls on the right holder. However, these costs may be mitigated by the increased speed of destruction. Finally, there remains the issue of where the holder/declarant does not give consent to the destruction of consignments. This leads the right holder to issue proceedings in order to prevent the goods from being released<sup>21</sup>. This means that a holder/declarant may expressly refuse consent in the hopes that it is not economically viable for the right holder to bring proceedings for the destruction of counterfeit goods.

As mentioned above, if the Commission's recent proposals for changes to the Community Trademark

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<sup>15</sup> Ibid., Wipo, 'Regulation (Eu) No 608/2013 Concerning Customs Enforcemebt of Intellectual Rights ',

<sup>16</sup> Three units or less of counterfeit goods or such goods less than two kilos

<sup>17</sup> Wipo, 'Regulation (Eu) No 608/2013 Concerning Customs Enforcemebt of Intellectual Rights ',

<sup>18</sup> Karen Dyekjaer, 'Internet Sales into the Eu of Fake 'Replicas'', *Journal of Intellectual Property Law & Practice*, (2014), jpu065.

<sup>19</sup> This will be set up early 2015

<sup>20</sup> Carl De Meyer and Carina Gommers, 'The Transit Dilemma Revisited: The New Customs Regulation and the Legislative Package on Trade Marks', *Journal of Intellectual Property Law & Practice*, 8/10 (2013), 771-75.

<sup>21</sup> Cook, 'Revision of the European Union Regime on Customs Enforcement of Intellectual Property Rights', (

regulation and a potentially new Trademark Directive are adopted, it will most likely reverse the decision in *Philips* and *Nokia*. The recent draft proposal provides that goods entering the EU customs territory can infringe trademark registrations even when they have not been released into circulation within the EU<sup>22</sup>. This means that in most cases counterfeit goods entering the EU customs territory will fall within the definition of 'counterfeit goods' in the new Customs Enforcement Regulation even if they are in transit or under a suspensive procedure.

The Commission's proposal addresses two different changes that assist right holders. The first is where the consignee has no commercial intentions, the goods may still infringe trademark registrations in the EU. The main purpose of this is to ensure that infringing goods shipped to consumers from outside the EU will still be considered to infringe trademark registrations<sup>23</sup>. The second is right holders can take action when packaging or labels are imported with the intention of later attaching them to the goods concerned<sup>24</sup>.

Overall, the new Customs Enforcement Regulation is expected to increase the scope of protection for right holders, including a simplified administrative procedure. However, it does not seem to have addressed the impact of the *Philips* and *Nokia* decision and in this context, the Commission's trademark proposals may bring clarity or at least partly address this issue.

## 2.4 Conclusion

The Customs Regulation has been broadly effective in preventing a large number of counterfeit goods from entering the common market. In the first year in which the Regulation was in force, customs authorities seized more than one hundred million articles and there are approximately 22,000 customs operations annually which concern the suspension of suspected counterfeit goods. Further, applications

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<sup>22</sup> Knaak, Kur, and Von Mühlendahl, 'The Study on the Functioning of the European Trade Mark System', (

<sup>23</sup> Wipo, 'Regulation (Eu) No 608/2013 Concerning Customs Enforcement of Intellectual Rights', , Dyekjaer, 'Internet Sales into the Eu of Fake 'Replicas'', (

<sup>24</sup> Cook, 'Revision of the European Union Regime on Customs Enforcement of Intellectual Property Rights', (, Wipo, 'Regulation (Eu) No 608/2013 Concerning Customs Enforcement of Intellectual Rights',

made under Regulation 1383/03 increased from 981 in 2000, to 2,888 in 2004.<sup>25</sup> This increase in use of the procedure must, to some extent, demonstrate an increased reliance by both customs authorities and right-holders to protect intellectual property rights from counterfeit goods.

Moreover, the Regulation provides a range of appropriately designed mechanisms for detecting and remedying the importation of counterfeit goods and is appropriately placed within the framework of fundamental principles of EC law.

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<sup>25</sup> *Id.*

### 3.Counterfeit Goods in Transit: A Comparative Study of the EU and the United States Customs Procedure

#### **3.1 Territorial principle**

The Community protections of intellectual property represent a radical decision taken to harmonize national laws and to create unitary intellectual property rights that are protected on a Community-wide basis. Typically, and by contrast, the governing principle with regard to intellectual property protection is that the relevant right-holder is only afforded protection within the territorial scope of any given registered mark; that is to say, protection of an intellectual property right is granted within any given territory.<sup>26</sup> Because of the nature of the goods and customs union that the Community represents, the law on counterfeit goods has to necessarily resolve the conflict that arises between the territorial protection of intellectual property rights and the principles of free movement of goods and services.<sup>27</sup>

#### **3.2 EU case law**

##### 3.2.1 C-383/98 Polo/Lauren

Polo/Lauren is foundational: the ECJ established that the Customs Regulation applies to goods in transit within the EU. On the facts, the relevant consignment of suspected counterfeit goods was in transit between Indonesia and consignees in Poland. The case established two salient principles in relation to goods in transit. The first principle is that, contrary to the interpretation given to the Regulation by the Austrian government, Regulation No 2913/92 establishing the Customs Code did apply to goods that were in transit between two non-Member States. The second principle established

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<sup>26</sup> Alexander Peukert, *Beyond Territoriality: Transnational Legal Authority In An Age of Globalization* (Brill Academic Publishing, 2011).

<sup>27</sup> Spyros M. Maniatis, *Trade Marks in Europe: A Practical Jurisprudence* (London: Sweet and Maxwell, 2006), 4 *et seq.*

was that the Regulation was justified under Art 133 EC as a measure affecting the internal trade of the Community. Two justifications were given: first, that the Community was empowered to create measures regulating trade at border crossing points, and second, on the basis that goods in transit in Member States were likely at some later stage to enter the internal market. A basic test was then established.

### 3.2.2 C-60/02 Rolex

In *Rolex*, the ECJ had to consider the interaction between the Regulation and Austrian criminal law. The Austrian government submitted a preliminary reference to the court on the basis that the transit of goods through the territory was not a criminal offence under Austrian law and, moreover, Austrian law made this explicitly clear by maintaining a distinction between import and export on the one hand, and transit on the other. The ECJ held that national courts were under an obligation to interpret domestic legislation in a manner compatible with the principles of Community law, including the principles regarding goods in transit between non-Member States, as established in *Polo/Lauren*. However, this interpretation could not have the effect of creating or aggravating a criminal offence under national law.<sup>28</sup> It could be argued that the ruling represents an unfortunate compromise between the supremacy of EC law on the one hand, and respect for non-retroactivity of domestic criminal law on the other.

### 3.2.3 C-405/03 Class International

Class International brought to the court the question of defining transit, as opposed to interference with the mark in the form of releasing the goods for free circulation or specifically offering them for sale within the Community. The ECJ held that mere likelihood that this would occur was insufficient; it was

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<sup>28</sup> For more on the relationship between intellectual property and criminal law, see in particular, Christopher Geiger, *Criminal Enforcement of Intellectual Property: A Handbook of Contemporary Research* (Edward Elgar Publishing, 2012).

similarly insufficient that the trader had a business presence or parallel trade in the Community. Further and specific evidence must be adduced. With regards to the onus of proof, the court held that the primary burden was on the right-holder to demonstrate that interference with the right has occurred or is likely to occur applying the test above. If this is the case, the burden is then shifted to the consignee to demonstrate the consent of the right-holder to sale of goods within the Community.

Presumably *Class International* intended to strike an appropriate balance between the free movement of goods and the rights of property owners on the one hand, and of intellectual property holders on the other. Arguably the ECJ strikes the balance inappropriately by setting such a high standard: mere likelihood *should* be the appropriate standard required to bring proceedings under the Regulation in transit situations.

#### 3.2.4 C-281/05 Montex

The high standard in *Class International* was strengthened in *Montex*. *Montex* pertained to the unusual scenario whereby suspected counterfeit goods subject to trademarks registered in Germany – the jurisdiction of the arrest – but not in the Member State that was the intended destination. The court followed its previous decision to the effect that a right-holder cannot oppose mere entry of goods into the Community where those goods have not *already* been put on the market within the Community, to hold that in this case the right-holder could not act to suspend goods in transit unless they were subject to the act of a third party whilst under the external transit procedure that *necessarily entails their being put on the market* in the Member State of transit.

#### 3.2.5 C-446/09 Philips & C-495/09 Nokia

The conjoined cases of *Philips* and *Nokia* represent the current Community position on goods in



transit.<sup>29</sup> The court held that right-holders could only take action where proof is provided that the goods are intended for sale in the Community, such proof typically constituting proof of sale to a customer in a Member State, offer for sale, correspondence or advertisement suggesting such sale is imminent. Further, the court in *Nokia* clarified the indications that the national suspending body requires before intervention, namely a lack of precise or reliable information about the manufacture of the goods, a discrepancy within relevant license or import documentation, or lack of cooperation with customs authorities. The *Nokia* case will have the likely effect of pushing right-holders to wait for *ex officio* enforcement by customs authorities; a much lower threshold is required. This course of action, however, has the obvious limitation that the Regulation processes were designed to work in tandem to provide protection in the greatest number of suspected breaches. The *Nokia* decision will limit the effectiveness of the Regulation for that reason.

### 3.3 Manufacturing fiction

A note must also be made emphatically rejecting the manufacturing fiction that had previously been relied upon by the ECJ. The court had previously imposed a fictitious test, asking whether “manufacturing of the detained goods in the EU member state in question (in this case, Denmark) would constitute an intellectual property infringement even though the goods were actually manufactured in a third country.”<sup>30</sup> The court was correct to reject the notion – which found a degree of misplaced support in Art 8 of the Customs Regulation – on the basis that it operates a legally and economically unhelpful fiction. This rejection is consistent with the position of the European Commission<sup>31</sup>

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<sup>29</sup> Ruessmann, Laurent and Francesca Stefania, Condello, *The CJEU Judgment in Nokia and Philips Clarifies the Customs Detention of Goods Suspected of Infringing Intellectual Property Rights*, *Global Trade and Customs J.* 7, no. 4 (2012): 183.

<sup>30</sup> Petersen, Clement Salung, Thomas Riis and Jens Schovsbo, *Intellectual property enforcement at the EU border: the challenge of private imports*, *J. of Intell. Prop. Law & Prac.* 7, no. 10 (2012): 751; Vrins, Olivier, *The Real Story of a Fiction: Transit after Montex under Regulation (EC) 1383/2003*, *J. of Intell. Prop. Law & Prac.* 5, no. 5 (2010): 358-71.

<sup>31</sup> European Commission, *Proposal for a Regulation Concerning Customs Enforcement of Intellectual Property Rights*, (2011), [http://ec.europa.eu/taxation\\_customs/resources/documents/common/legislation/proposals/customs/com\(2011\)285\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/common/legislation/proposals/customs/com(2011)285_en.pdf).

### 3.4 Summary of the ECJ case law

Undoubtedly, the law has a restrictive effect to claims in respect of goods in transit: there are significant difficulties associated with the onus of proof following *Nokia*, and right-holders will often struggle to meet the required standard.<sup>32</sup> Having established that goods which enter the Community for processing pending distribution are not imported for the purpose of the relevant legislation, a claim in respect of counterfeit goods following *Montex* can only be sustained “where the goods are subject to the act of a third party which necessarily entails their being put on the market in the Member State of transit.”<sup>33</sup>

Further, it must be pointed out that this is a particularly acute problem in transit cases, because only the immediate parties to the transaction are likely to have information capable of amounting to proof under the *Nokia* standard; third party right-holders will have significant difficulty in demonstrating that the goods are to enter the Community market.

### 3.5 Counterfeit goods in transit under the United States system

#### 3.5.1 Counterfeit goods in foreign trade zones

Comparisons with United States law are interesting because they draw out the unusual extent to which courts have manipulated the provisions of the Lanham Act in order to extend the imposition of liability on traders in counterfeit goods that are merely in transit through United States territory, typically through foreign trade zones where normal tax and customs measures are restricted to facilitate efficient trade.

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<sup>32</sup> Strowel, Alain, *Had the National Court Worn Silhouette Glasses, It Could Have Caught Sight of the Response*, J. of European Competition L. & Prac. 2, no. 5 (2011): 463-65.

<sup>33</sup> Dennis, Mark, *Out of Circulation: No Trademark Infringement of Goods in Transit*, J. of Intell. Prop. Law & Prac 3, no. 6 (2008): 353-54.

### 3.5.1.1 A.T. Cross Co. v. Sunil Trading Corp.

The *Cross* case concerned the importation into the United States of counterfeit Cross ballpoint pens produced by a Taiwanese enterprise, where the importer intended eventual re-sale to consumers in the Canary Islands.<sup>34</sup> The importation was notable in that the goods were warehoused within a designated foreign trade zone within New York, designed specifically for foreign goods to be stored without attracting the status of imports under the relevant customs and taxation provisions; as such, the case becomes one of transit rather than import into the United States market. The United States District Court in New York held that, notwithstanding this status, the counterfeit pens were subject to the control of United States law and specifically the provisions of the Lanham Act. The reasoning of the court was unusually stretched; in the absence of an alternative means by which to impose liability, the court held that the Act was to apply simply because it had not expressly exempted foreign trade zones.

### 3.5.1.2 Reebok Int'l Ltd v. American Sales Corp.

The decision in *Reebok International Limited v American Sale Corp* reinforces the “broad jurisdictional grant” of the Lanham Act asserted by the United States Supreme Court in *Steele v Bulova Watch Co.*<sup>35</sup> In the context of a dispute concerning the trade in counterfeit Reebok training shoes, the Californian District Court found that it had jurisdiction to hold the defendants liable for infringement of trademark occurring in the sale of goods between Taiwan, Japan and Singapore. The

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<sup>34</sup> Jaffe, Matthew, *Goods Remaining Exclusively within Foreign Trade Zones Are Subject to Federal Jurisdiction for Violations under the Lanham Trademark Act*, *Denv. J. Int'l L. & Po'y* 9, (1980): 153.

<sup>35</sup> This case concerned an American citizen who was engaged in the watch business in Mexico. He assembled the watches and had them stamped with the name ‘Bulova’ to be sold in Mexico. The owner of the trademark ‘Bulova’ in the United States brought an action for violation of the Lanham Trademark Act. It was held that under the Lanham Act, the court has jurisdiction to enjoin an American citizen’s production and sale in Mexico of watches bearing a trademark identical to the trademark owner in the United States. *Steele v. Bulova Watch Co., Inc.*, 344 U.S. 280, 286 (1952).

justification provided by the court was that the relevant trade in counterfeit goods was controlled and directed from the United States. Furthermore, enterprise carried on by the defendants within the United States provided revenue that supported the trade in counterfeits. This reasoning seems equally stretched, particularly in relation to the remoteness of the second justification: the court did not require any specific causal link between revenues generated in the United States and the overseas trade in counterfeits.

### 3.5.1.3 Ocean Garden Inc. v. Marktrade Co.

The issues of extra-territorial trade and foreign trade zones were combined in *Ocean Garden Inc v Marktrade Co*. The claimants claimed an injunction preventing the defendants from selling fish and seafood products marketed using marks registered to the claimants. A jurisdictional difficulty arose in that the contested goods were produced, processed and sold outside of the United States. The production occurred in Mexico and the tinned goods were sold in Asia. However, the produce passed through a foreign trade zone in Los Angeles in transit. The ruling in *Ocean Garden* applied the principle established in *Cross*. In particular, the judgment relied on the statement in *Cross* that “United States citizens could be involved in and, consequently, financially profit from the breaking down, repacking and relabeling of the goods.”<sup>36</sup>

### 3.5.1.4 U.S. v. 4,432 Mastercases of Cigarettes, More or Less

*Mastercases* considers the extent to which businesses are immune from state and federal taxing powers – and in particular here, the California cigarette tax – when the relevant goods are stored within foreign trade zones. The facts of the case involve the seizure of over 44 million cigarettes for non-payment of California cigarette tax. There is no indication on the facts that the cigarettes were counterfeit; the case is pertinent to this paper because of its further examination of the mechanism of foreign trade zones. The California court held that the taxes owed, both because of the sweeping application of the Lanham Act and because there was a lack of indication that Congress had

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<sup>36</sup> *Ocean Garden, Inc. v. Marktrade Co., Inc.*, 953 F. 2d 500, 504 (9th Cir. 1991).

intended to pre-empt the state imposition of taxes in the field of foreign trade zones. Accordingly, *Mastercases* held that the storage of goods exclusively in a foreign trade zone—and lack of any intention to trade within the United States—was insufficient to oust the jurisdiction of the relevant taxing and regulatory customs provision.

### 3.6 Analysis

The United States case law is remarkable insofar as it interprets the Lanham Act to grant United States courts' jurisdiction over alleged breaches of trademark that occur outside the territorial United States; in doing so, the decisions in *Mastercases* and *Ocean Garden v. Marktrade Co.*, in particular, challenge the territorial principle. The United States jurisprudence has arguably erred in holding that the federal act reaches outside of the United States, particularly in cases where there is no ostensible link between the United States and the relevant counterfeit trade; or where the relevant mark is not well-known in the context of international TRIPS protection.<sup>37</sup> The EC should wholly reject the United States approach, and should instead focus on developing a principled basis for imposing liability on those who trade in counterfeit goods through the community territory.

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<sup>37</sup> Schechter, Roger, *The Case for Limited Extraterritorial Reach of the Lanham Act*, Va. J. Int'l L. 37, (1997): 619; Bradley, Curtis A., *Territorial Intellectual Property Rights in an Age of Globalisation*, Va. J. Int'l L. 37, (1997): 505, 538-39.

#### **4.Liability of Intermediaries**

##### **4.1 Legislation on liability of intermediaries**

###### 4.1.2 Directive on the enforcement of intellectual property rights

Article 9 of Directive 2004/48 is of particular interest since it sits uncomfortably with the decision in *Vuitton*. The provision states that Member States shall ensure that the relevant judicial authorities are empowered to take steps on behalf of an applicant right-holder to grant provisional and precautionary measures in respect of suspected infringements of IP rights; in particular, the Art 9(1)(a) requires the courts to be empowered to grant an interlocutory injunction “against an intermediary whose services are being used by a third party to infringe an intellectual property right.”<sup>38</sup> This threshold of “being used” is a much lower hurdle.

###### 4.1.3 C-236-238/08 Google v. LV and others

The court in *Vuitton* imposes an immediate – although arguably justified – restriction on the liability of intermediaries, such that applicants will have to demonstrate either knowledge or control over the relevant data processed by an online intermediary.

The applicant Louis Vuitton, incorporated in France, brought a suit against Google on the basis that the search provider was accepting commission from counterfeit traders to associate their goods with a search for products by Louis Vuitton. The French court referred to the ECJ the question of whether the claimant was entitled to prevent Google from acting in this way. The court held that an internet service provider was not using a registered sign in the manner contemplated by Art 5(1) & 5(2) merely by

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<sup>38</sup> Directive on the Enforcement of Intellectual Property Rights, 2004/48, art. 9, ¶1(a)

storing an identical sign as a keyword and using that keyword as a reference by which to organize searches. 39

The court's holding that Art 14 of the Directive did not apply unless the service provider had "played an active role of such a kind as to give it knowledge of, or control over, the data stored"<sup>40</sup> imposes a prohibitively high hurdle for applicants who wish to bring claims against facilitating intermediaries.

#### 4.1.4 The Directive on e-commerce

At present, the Community legislation in relation to the liability of intermediaries is contained almost wholly in the Directive 89/04—the 'Directive on e-commerce'—about which some introductory remarks must be made. The directive was intended in part to remedy the problems associated with the territorial approach to trademark protection, with the recitals to the Directive citing trademark laws as "disparities, which may impede the free movement of goods... and may distort competition within the common market."<sup>41</sup> Article 5 provides that a registered trademark confers exclusive rights to the right-holder that allow him to restrict the use of identical or similar signs by third parties within the course of trade or from the import and export of goods under the relevant sign.

#### 4.1.5 The Infosoc-directive

The Information Society Directive 2001/29 is intended to complement Directive 89/04 as part of a move towards a secure information society.<sup>42</sup> The central principles are those set out in Article 4 and Article 5. Article 4 regulates the right of communication to the public

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<sup>39</sup> Keenan, Terrance J., *American and French Perspectives on Trademark Keying: the Courts Leave Businesses Searching for Answers*, 2 Shidler J. L. Com. & Tech. 14, (2005)

<sup>40</sup> Case-236-238/08 *Google v. LV and others* at para (2009) [114] to [120]

<sup>41</sup> Preamble, Directive 89/04

<sup>42</sup> European Commission, *Copyright in the Knowledge Economy*, European Commission, (2013), [http://ec.europa.eu/internal\\_market/copyright/docs/copyright-info/20091019\\_532\\_en.pdf](http://ec.europa.eu/internal_market/copyright/docs/copyright-info/20091019_532_en.pdf).

of registered works, and provides that Member States shall provide authors with the exclusive right to control communication of their works to the public; Article 4(2) requires the Member State to ensure this control through both wired and wireless means. Article 5 relates to distribution of material. The provision is structured similarly: Article 5(1) provides that a Member State will provide exclusive rights to authors to authorize or prohibit any distribution of their work; Article 5(2) then provides that this right “shall not be exhausted within the Community”<sup>43</sup> without the authorization or permission of the Author. Importantly, temporary acts of reproduction—such as those involved in a transmission in a network between a third party and intermediary—are explicitly exempt from the scope of the Article.

#### 4.2 Principle of proportionality

The key to resolving the apparent conflict between *Vuitton* and relevant legislation may be the application of proportionality – a fundamental principle of Community law – in the context of the legal regulation of intermediaries in alleged infringements of IP rights.<sup>44</sup> The fundamental importance of the principle in the particular context of IP protection has been compellingly set out in the following way:

The appeal to the principle of proportionality in order to verify the conformity of a legislative attempt is not only indispensable but of vital importance. This law doctrine is one of the few world known doctrines having supranational power. One of the most important fields of application of the principle of proportionality lies in the domain of fundamental rights and freedoms. It is in that particular sphere that proportionality receives its current amplitude. In this particular context, the goal of the principle of proportionality is to make sure that the legislator achieved the desirable balance between the imperatives of social order and the protection of fundamental rights.<sup>45</sup>

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<sup>43</sup> Directive 2001/29, art. 5 ¶2.

<sup>44</sup> Giannopolou, Alexandra, *Copyright enforcement measures: the role of the ISPs and the respect of the principle of proportionality*, European J. L. & Tech. 3, no. 1 (2012):.

<sup>45</sup> *Id.* at 29.



This paper adopts the approach in *Vuitton* insofar as it characterizes intermediaries as lawful when acting in a *passive-reactive* role, since such characterization is likely to result in proportional restrictions being imposed on providers of computing services.<sup>46</sup> In addition, the author notes that there are policy goals that must be considered alongside proportionality when determining how to regulate intermediaries, namely the importance of voluntary co-operation within and across the sector, and the cooling effect of regulation on the innovation within the internet sector and associated economic gains. These factors pull towards a greater relaxation in the regulation of online intermediaries.

### 4.3 Liability of intermediaries under the United States system

#### 4.3.1 Inducement of direct infringers

The United States law is significantly more developed in the field of intermediary liability, and imposes more stringent burdens on intermediaries to respect intellectual property rights and, further, to prevent the facilitation of their breach. Under United States law, a party will attract liability for the offence of contributory infringement where it makes a material contribution to another party's infringement of copyright and does so with the *knowledge* of the latter's infringement.<sup>47</sup> The leading case is the United States Supreme Court decision of *Sony Betamax* in which the Court refused to find the defendants liable for intellectual property infringement by producing VCR players that were capable of being used – and had in fact been used – to illegally record television programs.

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<sup>46</sup> De Beer, Jeremy and Christopher D. Clemmer, *Global Trends in Online Copyright Enforcement: A Non-Neutral Role for Network Intermediaries?* *Jurimetrics J.* 49, (2009): 375-409.

<sup>47</sup> Scott, Mike, *Safe Harbors Under The Digital Millennium Copyright Act*, *N.Y.U J. Legis. & Pub. Pol'y* 9, (2005)

### 4.3.2 Knowledge and Control

The requirements of knowledge and control have received further consideration in United States case law, although to some extent the outer reaches of those terms remains uncertain whilst technology moves ahead of case law developments.<sup>48</sup> The requirements of knowledge and control were refined in the case of *MGM Studios Inc. v. Grokster Ltd.* The Supreme Court held, in the context of a manufacturer of computer software that was intended to allow ‘peer-to-peer’ sharing, the relevant test was whether a defendant had distributed a device with the objective of promoting its user to infringe copyright.<sup>49</sup> This could be demonstrated by a clear expression of affirmative steps to foster infringement.

## 4.4 Liability under the United States system versus the European model

There are three key differences between the law regulating the liability of intermediaries under United States law and EU law, with the overall effect being one of greater, but unduly fragmented, liability for intermediaries under the United States law.<sup>50</sup>

The first difference is that the Community regime offers less protection and more uncertainty for online service providers who, absent the clear provisions in *Sony Betamax*, are uncertain as to the scope of their liability. The second is that this uncertainty is mirrored for right-holders and users in the Community; an uncertainty that is enhanced by the lack of harmonization of copyright laws.<sup>51</sup> The third difference is that the United States offers a dual-tier system of liability vis-à-vis

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<sup>48</sup> Samuelson, Pamela, *Three Reactions to MGM v. Grokster*, 3 Mich. Telecomm. & Tech. L. Rev. 177 (2006).

<sup>49</sup> *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 545 U.S. 913 (2005).

<sup>50</sup> Adapted from DLA Piper (2009) *EU Study on the Legal Analysis of a Single Market for the Information Society: New rules for a new age?* Produced following EU Commission Invitation to Tender OJ 2007/S 202 244659 or 19/10/2007.

<sup>51</sup> Although note arguments that the harmonization is more extensive than might otherwise be

intermediaries; the report argues that this belt and braces approach does not strike the appropriate balance between adequacy of protection for right-holders and the harmonization of Community-wide protection:

Contrary to the European Union, the United States uses a dual protection regime (the DMCA and the CDA, each with their own scope and purpose). It is only through the combination of both Acts that the United States offers a better protection than the European Union for online intermediaries. This dual protection regime results in a more fragmented regime than the approach taken by the European Union, because the DMCA and the CDA have a very different scope, and use different procedures (only the DMCA imposes a notice-and-takedown procedure).<sup>52</sup>

#### **4.5 Analysis – Liability of carriers and forwarding agents**

One conclusion to be drawn is that imposing liability for intermediaries and carriers is unable to solve the underlying issue of liability for counterfeit goods that are in transit across Member States. Whereas, following *Nokia*, the essential element of the right-holder's claim for goods that are in transit is that there is clear evidence that the goods will enter the common market. Liability for intermediaries is attracted only when an higher standard is met: in order to be liable as an intermediary, it is *prima facie* necessary to demonstrate existing infringement before a claim can be made in respect of a *facilitation* of that infringement. The protections are premised on the demonstration of the infringement of a protected right; the question being to whom liability can be attributed. To that extent, the issue of intermediary liability is not helpful in addressing transit of counterfeit goods through Member States.

#### **5. Concluding Remarks and Proposals**

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thought. See Antezana, Monica, *The European Union Internet Copyright Directive as Even More Than It Envisions: Toward a Supra-EU Harmonization of Copyright Policy and Theory*, B.C. Int'l & Comp. L. Rev. 26, no. 2 (2003): 415.

<sup>52</sup> *Id.* at 420.

To some extent, any proposals generated has been superseded by the very recent proposals made by the Commission regarding goods that are in transit in EU Member States. Attention should be drawn in particular to the proposed text of Art 5(1), which reads as follows:

The proprietor of a European trade mark shall also be entitled to prevent all third parties from bringing goods, in the context of commercial activity, into the customs territory of the Union *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 European trade mark registered in respect of such goods, or which cannot be distinguished in its essential aspects from that trade mark. [emphasis added]<sup>53</sup>

Appropriately, the approach taken by the proposed Regulation is comparable to that of Art 51 TRIPS: this latter article provides that a signatory may take action to cause customs authorities to suspend goods and otherwise prevent their free circulation where a right-holder has “valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place.”<sup>54</sup> Article 51 also provides for a similar system applying in the case of goods suspended in the course of being *exported* from a given territory.

This proposal is to be recommended as an adequate means of addressing the current difficulties of counterfeit goods in transit through the EU following *Nokia*. The standard required by the Regulation is therefore one of valid grounds that the goods are counterfeit; the effect of the proposed Regulation would be to remove the existing requirement under *Nokia* that the goods are due to be released into the internal market. Right-holders would therefore be able to suspend counterfeit goods in transit at the point at which they enter the territory of a Member State.

In addition to the above, further proposals include:

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<sup>53</sup> European Commission Press Release, *Trademarks: Commission Proposes Easier Access and More Effective Protection*, available at [http://europa.eu/rapid/press-release\\_IP-13-287\\_en.htm](http://europa.eu/rapid/press-release_IP-13-287_en.htm) [ May 20, 2013]

<sup>54</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 51 I.L.M. 1197 (1994).

(a) The EC imposing stricter penalty on importers of counterfeit goods, such as the present United States law provides.<sup>55</sup> In addition, the EC could encourage member states to impose criminal penalties.<sup>56</sup>

(b) Regulation 1383/2003 could be extended to allow trademark owners to file the mark with customs at all times instead of the requirement of doing so only when there is reason to suspect importation of counterfeit goods. This may allow customs to check imports regularly which could result in more counterfeit goods being uncovered.

In *Nokia*, it could be argued that the court's intention was to facilitate the action of the customs authority enforcing IPR. Furthermore, there still seems to be difficulties and inconsistencies in the implementation of the judgment in *Nokia*, particularly indications that would allow customs authority to take action. The case established that customs authority may legitimately detain or suspend the release of goods based on indications giving rise to suspicion without the need for direct evidence that the goods will be put on the EU markets. Nevertheless, there remains a strong need for clarity and complete guidance regarding indications allowing customs to take action.

Finally, the discrepancy between the type and standard of legal protection that the law of the United States and the Community offers to right-holders who wish to bring a claim against an intermediary remains. The proper way in which to address the issue of liability.

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<sup>55</sup> In 1984, the federal statutes were amended to include imposition of criminal liability for individuals who knowingly engage in trafficking counterfeit goods. Those individuals would be subject to imprisonment up to 5 years and a fine up to \$250,000. 18 U.S.C 2320 (d).

<sup>56</sup> Tritter, Donna L., *The EEC's Attempts to Stop the Importation of Counterfeit Goods*, B.C. Int'l & Comp. L. Rev 12, no. 2 (1989).

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