

## Montex/Diesel vs manufacturing fiction: ECJ to clarify matters at last?

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### 23.02.10 - Chiara Klaui

For several years now, patent holders and trademark owners have successfully been using Regulation 1383/2003[1] to ensure that customs authorities in the EU detain or suspend the release of goods suspected of infringing their IP rights.

These IP right owners take the view that goods in transit must be considered infringing goods under Regulation 1383/2003 and are thus subject to customs detention and/or subsequent seizure by an IP right owner under national IP laws. These IP right owners base their reasoning on the so-called "manufacturing fiction". According to this "manufacturing fiction", the determination as to whether or not goods infringe an IP right (more in particular patents) is to be made on the premise that the underlying goods are manufactured in the country through which the goods transit. Therefore, based on this fiction, any good which transits through a country where it would infringe an IP right if that good were in free circulation, can be detained by the national customs authorities and seized by an IP right owner, irrespective of whether an IP right would actually be infringed in the country of destination. This "manufacturing fiction" was confirmed by the Dutch Supreme Court under Regulation (EC) No 3295/94 [2], the predecessor of Regulation 1383/2003.

This view is strongly opposed by some who claim that goods in transit do not infringe any IP right as long as they are destined for a country where there is no valid IP right that the goods may infringe. They refer to the ECJ judgment in the Montex/Diesel case [3] where it was ruled that '*Article 5(1) and (3) of Directive 89/104 [4] is to be interpreted as meaning that the proprietor of a trademark can prohibit the transit through a Member State in which that mark is protected of goods bearing the trade mark and placed under the external transit procedure, whose destination is another Member State where the mark is not so protected, only if he can prove that those goods are subject to the act of a third party while they are placed under the external transit procedure which necessarily entails their being put on the market in that Member State of transit.*' This judgment, however, concerned trademarks which is why proponents of the manufacturing fiction claim that the Montex/Diesel ruling cannot be transferred to cases concerning patents.

Recently, two preliminary references dealing with the aforementioned dispute have been referred to the ECJ:

#### 1. C-446/09, Koninklijke Philips Electronics NV v Lucheng Meijing Industrial Company Ltd and Other

This case concerned a shipment of shavers from China (destination unknown) which were kept in temporary storage (in transit). These goods were seized by Belgian Customs upon their suspicion that the shavers may infringe Philips' IP rights, in this case registered design rights and copyrights.

Philips argued that it follows from Article 6(2)(b) of Regulation (EC) No 3295/94 that the Court when assessing the underlying case must apply the fiction that the seized goods are not in transit but were manufactured in Belgium. It is therefore up to the Court to determine whether an infringement of an IP right has taken place in Belgium. The defendant in this

case argues that it is up to Philips to show that the goods will indeed be traded 'illegally', and refers in that regard to the Montex/Diesel judgment of the ECJ.

The Court decided that in order to decide the underlying case, it is necessary to understand how Article 6(2)(b) should be interpreted. It therefore referred the following question to the ECJ:

*"Does Article 6(2)(b) of Regulation (EC) No 3295/94 of 22 December 1994 (the old Customs Regulation) constitute a uniform rule of Community law which must be taken into account by the court of the Member State which, in accordance with Article 7 of the Regulation, has been approached by the holder of an intellectual-property right, and does that rule imply that, in making its decision, the court may not take into account the temporary storage status/transit status and must apply the fiction that the goods were manufactured in that same Member State, and must then decide, by applying the law of that Member State, whether those goods infringe the intellectual-property right in question?"*

## 2. C-495/09 Nokia Corporation v Her Majesty's Commissioners of Revenue and Customs

HMRC has a policy that its staff should not detain goods suspected of infringing intellectual property rights in the absence of evidence of a likely diversion onto the UK or wider EU market.

In the underlying case, HMRC stopped a consignment of goods (mobile telephone headsets, batteries, manuals, boxes and hand free kits, each of which bore Nokia trade marks) being shipped from Hong Kong to Colombia. Samples of these goods were sent to Nokia who confirmed that they were counterfeit and requested HMRC to seize the goods under Council Regulation 1383/2003. HMRC responded by stating that it had difficulty in understanding how goods could be counterfeit within the meaning of the Counterfeit Goods Regulation unless there was evidence that they might be diverted onto the EU market. In the absence of such evidence, HMRC indicated that it did not believe it would be lawful to deprive the owner of its goods. Nokia consequently filed an application for judicial review of HMRC's decision not to seize the consignment absent evidence that the goods it comprised would be released onto the market in the EU.

The High Court of Justice decided that it would refuse Nokia's application for judicial review, since, in the eyes of the High Court of Justice, it is based upon the proper interpretation of the Counterfeit Goods Regulation. Nokia lodged an appeal against this judgment. The Court of Appeal decided that in order for it to be able to give a judgment in this case, it would be necessary to request a preliminary ruling from the European Court of Justice. The question referred is as follows:

*"Are non-Community goods bearing a Community trade mark which are subject to customs supervision in a Member State and in transit from a non-Member State to another non-Member State capable of constituting 'counterfeit goods' within the meaning of Article 2(1) (a) of Regulation 1383/2003/EC if there is no evidence to suggest that those goods will be put on the market in the EC, either in conformity with a customs procedure or by means of an illicit diversion."*

Even though these two preliminary rulings may be useful in settling part of the ongoing dispute, it has yet to be seen that all underlying issues will be solved by the ECJ in both their judgments.

In the Nokia case for example a clear reference is made to goods being transported from one non-EU Member State to another. What about the situation where a good is transported from an EU Member State to another EU Member State, or from an EU Member State to a non-EU Member State or vice versa. If a good is, for example, produced under PCC (Processing under Customs Control) in an EU Member State and is destined to be brought into free circulation in another EU Member State, it is possible that this good will

be transported in transit over the territory of a third EU Member State where an infringement of an IP right could take place, if the customs authorities adhere to the manufacturing fiction that is.

Moreover, none of the aforementioned two preliminary references concern patents. It remains to be seen whether the conclusions drawn by the ECJ can also be applied to patent infringements and national patent laws.

It is to be hoped that the ECJ will incorporate all possible issues in their judgments in order to ensure clarity and uniformity in the way Regulation 1383/2003 is interpreted and applied all throughout the EU.

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**[1]** Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights.

**[2]** Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures concerning the entry into the Community and the export and re-export from the Community of goods infringing certain intellectual property rights.

**[3]** European Court of Justice, *Montex Holdings Ltd v Diesel SpA*, Case C-281/05.

**[4]** First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks.