

CUSTOMS CRACKDOWN – ONE WAY OF FIGHTING AGAINST IP INFRINGEMENT

September 2006

The latest report¹ issued by the *Union des Fabricants* (anti-infringement association) reports, figures in hand, a significant increase in infringement.

While infringement accounted for 5% of international trade in 2000, this figure is claimed to have stood at about 10% in 2005. The profits generated by infringement internationally is estimated at EUR 400 billion a year.

For France alone, infringement is reported to represent an annual financial loss of EUR 6 billion and 30,000 jobs lost. This scourge is experiencing unprecedented growth, with the number of products seized by customs having quintupled within the space of three years.

Infringement, which for a long time basically affected the luxury sector now involves all industries (clothing, medical drugs, spare parts, food items, cigarettes, alcohol, cosmetics, toys, electronic goods, etc.). One out of every two businesses is now reported to suffer from infringement.

The report also insists on the increasing international dimension of infringement, with it being more and more frequent for counterfeit goods to be partially manufactured in one country, assembled in another, transit in a third before hitting the streets in a fourth country, which is oftentimes France.

1. Stakes involved by infringement for trademark holders

Faced with this economic reality of this scourge, trademark holders have adopted an active anti-infringement policy.

Similarly, the legal reality obliges trademark holders to act so as to protect their assets, i.e. their intellectual property rights. Failing action, they risk losing their attractiveness and so becoming banal, thereby losing entitlement to any legal protection (Article L. 714-6 of the Intellectual Property Code ("IPC")).

The harm faced by trademark owners is significant:

- Loss due to infringement arising out of the counterfeiting of the proprietary rights over trademarks,

- Image impairment, arising notably out of the loss of the trademark's attractiveness and the dilution of its distinctiveness,
- Commercial loss, arising in particular out of lost sales and disruption of distribution networks.

2. Avenues of recourse open to trademark holders

Trademark holders generally tend to respond to infringement by filing a complaint before the civil justice system.

Another reaction to imports of counterfeit goods, which is also very efficient, is to file a complaint before the criminal justice system, since infringement is a criminal offence.

Indeed, EC Regulation no. 1383/2003 of 22 July 2003, which became applicable as of 1 July 2004, Article L. 716-8 of the IPC and Articles 38, 215 and 215 (b) of the Customs Code allow trademark holders to bring claims before the criminal courts, together with the French Customs authority (the *Direction Générale des Douanes et Droits Indirects* or "DGDDI").

This procedure allows acting "at the source" of the problem, i.e. upon the entry of counterfeit goods on French territory, whether at a border point, seaport or airport.

Similarly, criminal proceedings often have a more dissuasive effect than civil proceedings since the counterfeiters run the risk of:

- a maximum fine of EUR 400,000 (Article L. 716-9 of the IPC);
- a maximum prison sentence of four years (Article L. 716-9 of the IPC);
- the complete or partial closing, definitively or temporarily, for a maximum period of five years, of the establishment having served to commit the offence (Article L. 716-11-1 of the IPC);
- confiscation or destruction of the counterfeit products (Article L. 716-14 of the IPC).

These penalties are in addition to the compensatory damages that may be awarded to the trademark holders by the courts.

2.1. Formalities prior to referral to customs

So as to benefit from the assistance of the customs authorities, a request for intervention should be addressed to the DGDDI.

¹ "Rapport contrefaçon et criminalité organisée - 3^{ème} édition", *Union des Fabricants*, 2005, consultable sur le site www.unifab.com.

Pursuant to the terms of Article R. 716-1 of the IPC, this request for intervention, for which there is no associated cost, is made via a dossier notably comprising:

- proof of rights over the trademarks,
- description of the products manufactured, possibly accompanied by samples of the products,
- list of authorised suppliers/retailers,
- indication of the manufacturing location(s) of the goods,
- copy of the agreement granting the applicant the benefit of the license to use the trademarks,
- information on the itineraries used for the smuggling,
- technical differences between authentic goods and suspicious products,
- any information that person may have concerning the type of fraud involved,
- the name of the representative to contact in the event of a seizure of counterfeit products.

The efficiency of this type of procedure also depends on the care having gone into the request for intervention; the more detailed information is provided (i.e. concerning the features of the branded products), the more action by the customs authorities will be facilitated.

Once accepted by the DGDDI, this dossier will be transferred to all of the customs services in France. The request is valid for one year and is renewable.

The customs authorities can then, on an informed basis, seize products whose authenticity they have doubts and warn the trademark holders or their representatives.

2.2. Post-referral of the customs authorities

When in the presence of products whose authenticity seems dubious to them, the customs authorities may decide to “detain” them in application of Article L. 716-8 of the IPC.

After having been informed of this detainment, the representatives of the trademark holders may, within ten days from notification thereof:

- (i) confirm the counterfeiting nature of the goods,
- (ii) show the customs officials that they have initiated civil or criminal proceedings (by a direct writ of summons or a criminal complaint combined with a claim in damages as civil parties with the competent criminal court).

Otherwise, the goods will be released and returned to the suspected counterfeiter. The period in which to carry out these formalities is often considered to be too short.

If the formalities are carried out within the imparted time, the goods will be detained until such time as a court decision is entered.

Once proceedings are brought, the investigating judge will decide whether security is required to be paid into court by the complainant. Its purpose is to cover the payment of the civil fine that the complainant may be ordered to pay if his direct writ of summons or criminal complaint is deemed frivolous or vexatious (Article 392-1 of the Criminal Procedure Code).

The holder of the counterfeited trademarks will be able to participate in the investigation, thus have access to the investigation file, and be able to request damages.

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Action by customs thus allows trademark holders to take effective measures against counterfeiters, by making sure that counterfeit goods are not allowed to spread on the market.

The efficiency of this course of action is due precisely to the cooperation between the trademark holder and customs officials. The latter, who are already doing very well in catching smugglers, will be even more successful in their endeavours if trademark holders give them the means by which to do so.

AREAS OF LEGAL PRACTICE

• **MERGERS & ACQUISITIONS**

Engineering of takeovers and deal structuring, legal due diligence, restructuring operations, joint ventures, obtaining necessary administrative permits and licenses, drafting and negotiation of documentation (letters of intent, sale & purchase agreements, warranties that assets and liabilities are as stated, bank guarantees, shareholders' agreements, etc.), merger deals, takeovers of companies in difficulty or in the framework of collective procedures.

• **CAPITAL INVESTMENTS AND LBOS**

Representation of investment funds, issuers, targets and company officers, during the due diligence, advisory and negotiation processes.

• **COMPANY LAW**

"Long-term capital" transactions, capital increases, issuance of composite securities (convertible or repayable in shares, investment certificates, priority dividend shares etc.), stock option agreements, company founder share plans, temporary business combinations, management fees and cash management agreements, changes to charter/by-laws and legal secretariat services.

• **SECURITIES LAW**

IPOs and preparatory work, drafting of prospectuses, legal secretariat services for listed companies, relations with market authorities, securities litigation.

• **BANKING AND FINANCE**

Advice on loan and financing agreements, warranties/guarantees, syndication, banking regulations, financing of acquisitions and structured asset financing (particularly of real estate).

• **COMMERCIAL CONTRACTS / ECONOMIC LAW**

Advice and litigation with commercial contracts, i.e. service, sale, distribution, concession, franchise, commercial agent agreements, distributor/supplier relations, general terms of purchase/sale, commercial partnerships, manufacturing and subcontracting agreements, business sale agreements, management leases, consumer law, public and private procurement contracts.

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• **LABOUR AND EMPLOYMENT LAW**

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Advice and litigation work in connection with commercial leases, real estate due diligences, purchase/sale of property and of preponderantly real estate companies, financing of real estate acquisitions.

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• **COMPETITION LAW (FRENCH AND EU)**

Advice and litigation work in respect of industrial cooperation agreements and structuring of distribution networks. Advice and representation before the competition authorities and courts in cartel, anti-competitive practices, abuse of a dominant position and unfair competition cases. Advice on the control of concentrations (conduct of feasibility studies, preparation of notification files, negotiation with the national and Community control authorities) and on State aids/subsidies.

• **NEW TECHNOLOGIES AND INTELLECTUAL PROPERTY LAW**

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• **INTELLECTUAL PROPERTY**

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• **COLLECTIVE PROCEDURES**

Alert, restructuring and reorganisation procedures, conciliation and ad hoc representation procedures. Court-ordered reorganisation, preparation of reorganisation plans, sale and recovery plans, liquidation. Representation and assistance of creditors, company officers (action to make good the shortfall in assets, extension procedures, etc.).

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31, avenue Hoche, 75008 Paris

Telephone: 33 (0)1 56 88 30 00

Fax: 33 (0)1 56 88 30 01

www.bersay-associes.com

cb@bersay-associes.com