

## Montex Holdings Ltd v Diesel SpA, C-281/05

### Implications for Fighting Product Piracy

On November 9th 2006 the European Court of Justice (ECJ) issued the judgment in the case *Montex Holdings v Diesel*, C-281/05. As this case may have implications for your strategy for fighting IP-crime in Europe, we would like to provide you with some facts about the judgment, our view concerning its scope and our experience of how German courts and German customs tend to see the judgment.

#### 1. The facts and the question of law

The request for this preliminary ruling was submitted by the German Federal Supreme Court in the context of a dispute between Diesel SpA (hereinafter 'Diesel') and Montex Holdings Ltd (hereinafter 'Montex'). It concerned an application for an order prohibiting the transit through German territory of goods belonging to Montex, bearing a sign identical to the registered trade mark of which Diesel is the proprietor in Germany.

In December 2000, the Hauptzollamt Löbau – Zollamt Zittau (Löbau Principal Customs Office – Zittau Customs Office) intercepted a shipment of 5076 pairs of women's trousers bearing the name 'DIESEL', consigned for the firm Montex, which was in transit from the Polish factory through German territory. The trousers were to be transported in uninterrupted transit from the Polish customs office to the customs office in Dublin, and were protected against any removal in the course of transit by a customs seal affixed on the means of transport by the Polish authorities.

Montex's business in 2000 was to manufacture jeans by exporting the different pieces to Poland, including distinctive signs, under the customs seal procedure, having the pieces sewn together on Polish territory and bringing the completed trousers back to Ireland. Diesel had no protection for the sign in the territory of Ireland.

The decisive question of law was whether Article 5(1) and (3) of Directive 89/104/EEC and Articles 28 EC and 30 EC must be interpreted in a way that enables the trademark proprietor to prohibit the transshipment of counterfeit goods through a Member State, where the sign used on the counterfeits is protected, to a country where this is not the case.

#### 2. Importance of the decision for your strategy against product piracy

Though the decision does not say anything about the applicability of Regulation 1383/2003 (or its predecessor Regulation 3295/94) in transit cases, it is clearly of importance to any trademark owner whose strategy against IP-crime encompasses the fight against transits. Article 19 (3) of Regulation 1383/2003/EC provides that the trademark proprietor is liable for any damage inflicted by having goods unlawfully detained in the course of the customs border seizure procedure. As the prerequisites for a claim under Article 19 (3) follow the law of the Member State where the goods are detained, German law would be applicable if the goods were transshipped through Germany. According to the German Trademark Act, s. 149, the liability for any unlawful damage done in connection with border seizures is strict, i.e. the trademark proprietor would be responsible for the damage and loss regardless of culpability. The only defence is that the proprietor acted lawfully.

#### 3. Scope of the decision

According to the facts and the absence of other recent decisions this case has to be deemed as the leading authority for transshipments of counterfeit goods under the external customs transit procedure. It is also applicable for counterfeit goods under the customs warehouse procedure. Whether it affects the state of law concerning other transits will be discussed below (see 5 below).

Though the decision *Montex Holdings Ltd v Diesel SpA* is a preliminary ruling it does not only bind the German Federal Supreme Court that requested this ruling but all other national courts insofar, as they "can and should" rely on it when the matter arises before them (*International Chemical Corporation v Amministrazione delle Finanze dello Stato*, Case 66/80 ).

#### 4. Implications for transited counterfeits

a) *Goods placed under the external customs transit procedure:* The ECJ held, that Article 5(1) and (3) of Directive 89/104 should be interpreted to mean that the proprietor of a trademark can only prohibit the transit of branded goods placed under the external transit procedure through a Member State in which his mark is protected to another Member State where the mark is not so

protected if those goods are subject to an act of a third party which necessarily entails their placement on the market in the transit state.

We would like to draw your attention to the fact that the court focused on goods whose destination is a state where the mark is not protected. We tend to hold that the decision should be different, allowing the trademark owner to prohibit the transit of the counterfeits, if the trademark enjoys protection in the EC member state the counterfeits are destined for. (see infra 5)

*b) Goods placed under the customs warehouse procedure*

The ECJ held that the trade mark proprietor can oppose the offering for sale or sale of original goods bearing a trade mark and having the customs status of non-Community goods, when the offering is done and/or the sale is effected while the goods are placed under the external transit procedure or the customs warehousing procedure and this necessarily entails their being put on the market in the Community.

**5. Goods transhipped through a Member State with the intention to import them into the EC – extension of the decision Montex Holdings Ltd v Diesel SpA?**

What about counterfeit goods that are not under a special customs procedure? For example, what about counterfeits that arrive in Hamburg harbor with final destination Milan? The ECJ's decision has not promoted clarity concerning these transshipments but we tend to hold that the decision can be understood in a way that it does not hinder the trademark proprietor to prohibit the transit of goods that are not placed under the external customs transit procedure or the customs warehouse procedure.

*a) Construing the decision – the legal opinion of the General Advocate and the judgment*

First, we have to point out to the fact that the judges did not refer to their decisions in Polo v Lauren, C-383/98, and Rolex, C-60/02. They did not overrule these decisions.

In Polo v Lauren and Rolex the ECJ found that the external transit of non-Community goods is not completely devoid of effect on the internal market.

In our view the fact that the ECJ does not cite the judgements Polo v Lauren and Rolex shows that the judges wanted to limit the scope of the decision Montex Holdings Ltd v Diesel SpA to the facts given in the referral by the German Federal Supreme Court. In Polo v Lauren and Rolex, it was precisely because the goods at issue were highly likely to be marketed unlawfully in the EU that the ECJ considered that the intervention measures laid down in Regulation 3295/94 should be taken, even though the goods at issue were under an external transit procedure. The ECJ expressly declared in Polo v Lauren, that the goods at issue placed under the external transit procedure might be fraudulently brought on to the EU market. Unlike in Montex Holdings Ltd v Diesel SpA, the

goods at issue in Polo v Lauren were not on their way, under the external transit procedure, to a Member State in which they could be marketed freely.

This appears to be the crucial difference between the facts and the reason why the ECJ did not cite the decisions Polo v Lauren and Rolex. We tend to hold it as a sound basis for the conclusion that the scope of the decision is limited to cases of transshipment of counterfeit goods placed under the external transit procedure and the customs warehouse procedure and where the signs on the goods are not protected in the country the goods are destined for. In any event, the transit of counterfeits can be prohibited if the trademark proprietor submits evidence that the goods might be marketed in the Member State.

*b) Opinion of the district courts Hamburg and Bremen*

Second, our view is corroborated by a judgment rendered by the Hamburg District Court on January 9, 2007. The facts were as follows: A firm from Liechtenstein ordered a container full of counterfeit products in China and sold it to someone in Italy. The counterfeits were shipped to Hamburg and declared for import into the EU, thus being "goods in transit" from the German perspective when customs Hamburg detained the container.

The judges were of the opinion that the trademark owner's rights in his trademarks were already infringed when the goods were unloaded in Hamburg with the intention to import the counterfeit products into the EC. As the community trademarks used on the counterfeits enjoyed protection in Italy the transshipment through Germany constituted a use of the trademarks.

Further, after the ECJ had rendered the judgment Montex Holdings Ltd v Diesel SpA we applied successfully for several interim injunctions at the district courts Hamburg and Bremen. The facts were basically the same as in the aforementioned matter and our client attempted to prohibit the transport of counterfeits from Hamburg (Germany) to Prague (Czech Republic) and Budapest (Hungary), respectively. In our motion we stated explicitly our view concerning the scope of Montex Holdings Ltd v Diesel SpA, namely that it should be limited to cases where a) the goods are placed under the external transit procedure and b) the trademarks used are not protected in the country of the goods destination. Though these were ex parte – proceedings the decisions support our view of the ECJ's judgment because German courts have to assess the legal situation thoroughly notwithstanding whether the matter is dealt with in adversarial or ex-parte proceedings.

As long as counterfeits are presented for transit with the intention to import them into the EC and as long as the sign on a transshipped counterfeit is protected in the country of its destination by a community trademark, German courts still appear to be prepared to grant the trademark proprietor protection against the transshipment through Germany.

## 6. German customs' view of the decision *Montex Holdings Ltd v Diesel SpA*

We have contacted the Zentralstelle Gewerblicher Rechtsschutz, the higher customs authority that issues legal opinions and recommendations for the customs authorities within Germany. Though there is no official recommendation of the Zentralstelle yet, they tend to follow the decision in *Polo v Lauren*, C-383/98. Accordingly, they will view counterfeit goods in transits as goods under Article 1 (1) of Directive (EU) 1383/2003 and detain them. Please note that this statement is not binding for customs authorities and reflects only the personal view of an officer from the Zentralstelle Gewerblicher Rechtsschutz.

### Summary:

- The decision *Montex Holdings Ltd v Diesel SpA* (C-281/05) applies to cases involving counterfeit goods under the external customs transit procedure or the customs warehouse procedure that are transshipped through a Member State and marked with a sign that is not protected as trademark in the destination state.
- The construction of the decision indicates that the decision seems not to influence the legal situation concerning "normal" transits of counterfeit goods to other Member States. As long as the sign fixed to a transshipped counterfeit is protected in the country of its destination by a community trademark, German courts still appear to be prepared to grant the trademark proprietor protection against the transshipment through Germany.
- German customs tend to follow the decision in *Polo v Lauren*, i.e. in the short run German customs will enforce IP-rights as it has done prior to the decision in *Montex Holdings Ltd v Diesel SpA* (C-281/05).

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