



# The Equitable Disposal of Infringing Goods

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# 1. Introduction

- The legal framework under the TRIPS Agreement
  - Art. 46 TRIPS
  - Art. 59 TRIPS
  - Art. 61 TRIPS
  - The WTO panel report in the US/China dispute (DS 362)
  
- Disposal and destruction : Concrete challenges

## 2.1. TRIPS, Article 46

- Inserted into Section 2 (“*Civil and Administrative Procedures and Remedies*”).
- Applicable to the enforcement of any IPR covered by TRIPS.
- Dedicated to “Other Remedies”, next to injunctions (Art. 44) and damages (Art. 45).

## 2.1. TRIPS, Article 46

- *“In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed. The judicial authorities shall also have the authority to order that materials and implements the predominant use of which has been in the creation of the infringing goods be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements. In considering such requests, the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account. In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.”*

## 2.1. TRIPS, Article 46

- Article 46 sets principles (see Article 59: “[...] *in accordance with the principles set out in Article 46*”).
- Common objective of these principles: to create an effective deterrent to infringement → applicable to the whole Art. 46.
- WTO Panel : this objective “*is, in itself, [...] a guide to action with respect to orders for the destruction or disposal of infringing goods*”.
- Addressees: Judicial authorities (but extension through Art. 59).

## 2.1. TRIPS, Article 46

### ■ A) First sentence

*“In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, **disposed of outside the channels of commerce** in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, **destroyed.**”*

## 2.1. TRIPS, Article 46

- Authority to order either the disposal of the infringing goods outside the channels of commerce or the destruction thereof.
  - The national law should provide for the two options (as evidenced by a text argument : “*unless this would be contrary to existing constitutional requirements*”).
  - But conditions may preclude the authority to order one remedy (e.g., destruction) insofar as the judicial authority still has the authority to order the other remedy (e.g., disposal) (analogy with WTO panel considerations re. Art. 59).

## 2.1. TRIPS, Article 46

- Words “*shall have the authority*” => the orders **sanctioning the IPR infringements** are left to the discretion of the judicial authorities (within the limits of the principle of proportionality).
- The **remedies** (destruction or disposal outside the channels of commerce) are not exhaustive (as evidenced by Art. 46, fourth sentence).
- No compensation for the infringer/owner of the infringing goods.

## 2.1. TRIPS, Article 46

### ■ **Destruction** of goods

- *“unless this would be contrary to existing constitutional requirements”.*
- Costs? Nothing provided for under Art. 46 TRIPS....
- ... but Art. 41 provides that procedures shall not be “unnecessary [...] costly”.

## 2.1. TRIPS, Article 46

- **Disposal** of goods outside the channels of commerce
  - no commercial profit to be drawn from the infringing goods
  - various possibilities (incl. recall) – *see IPRED, Art. 10*
  - “*be disposed of*” => no obligation that the relevant authorities carry out the disposal themselves, but may entrust it to other bodies.
  - paves the way to non-commercial use by governments or donations to social welfare bodies for their own use or for charitable distribution (≠ re-selling by social welfare bodies).

## 2.1. TRIPS, Article 46

- **Disposal** of goods outside the channels of commerce
  - disposal “*in such a manner as to avoid any harm caused to the right holder*”
  - WTO panel: “*This is phrased in terms of purpose, not result*” => manner of disposal to be designed in order to avoid such harm.
  - depends upon circumstances
  - *Quid* defective goods?
  - *Quid* harm to reputation of the right holder/misleading of the consumer? Example of the donation to the Chinese Red Cross.

## 2.1. TRIPS, Article 46

### ■ B) Second sentence

*“The judicial authorities shall also have the authority to order **that materials and implements the predominant use of which has been in the creation of the infringing goods** be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements.”*

## 2.1. TRIPS, Article 46

- Subject: materials and implements the predominant use of which has been in the creation of the infringing goods.
- “Only” question of disposal outside the channels of commerce → but not exhaustive and destruction answers to the purpose of this provision.
- Disposal “*in such a manner as to minimize the risks of further infringements*” // purpose of effective deterrent remedies.

## 2.1. TRIPS, Article 46

### ■ C) Third sentence

*“In considering such requests, the **need for proportionality** between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account.”*

## 2.1. TRIPS, Article 46

- “*such requests*”: covers both the orders for destruction or disposal of infringing goods and the orders relating to the materials and implements (WTO Panel).
  
- “*Need for proportionality*” and “*interests of third parties*” => margin of appreciation for the judicial authorities
  - as to the orders  
→ e.g.: removal from the channels of commerce.
  
  - as to the measures to be ordered (what kind of disposal out of the channels of commerce).

## 2.1. TRIPS, Article 46

- D) Fourth sentence
- *“In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.”*
- Not a case of disposal outside the channels of commerce, but a specific case of release into the channels of commerce.

## 2.2. TRIPS, Article 59

- *“Without prejudice to other rights of action open to the right holder and subject to the right of the defendant to seek review by a judicial authority, competent authorities shall have the authority to order the destruction or disposal of infringing goods **in accordance with the principles set out in Article 46**. In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances.”*

## 2.2. TRIPS, Article 59

- Inserted into Section 4 (“*Special Requirements related to **Border Measures***”).
- Applicable at least to the enforcement of copyright or trademark right (Art. 51).
- Applicable to imported goods, but can be extended to goods for exportation.

## 2.2. TRIPS, Article 59

- Applicable to goods which release into the channels of commerce has been suspended by the customs authorities and which have subsequently been considered as infringing indeed.
- Principles of Article 46 as guidelines, incl. deterrent nature of the measure.
- Remedies are not exhaustive.

## 2.2. TRIPS, Article 59

- Destruction or disposal: conditions may preclude the authority to order one remedy (e.g., destruction) insofar as the judicial authority still has the authority to order the other remedy (e.g., disposal) (WTO panel).
- “Disposal” means “disposal outside the channels of commerce” as well (WTO panel; see English and Spanish text of TRIPS).
- “*In accordance with the Principles set out in Article 46*” => disposal in such a manner as to avoid any harm caused to the right holder as well.

## 2.3. TRIPS, Article 61

- “Members shall provide for **criminal procedures and penalties** to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale [...]. In appropriate cases, remedies available shall also include the **seizure, forfeiture and destruction** of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. [...]”

## 2.3. TRIPS, Article 61

- Ancillary sanctions to imprisonment and/or monetary fines, in order to put an effective end to the infringement.
- Wording of Article 61: the authority is not subject to constitutional limitations ≠ civil and border measures (Art. 46 and 59).
- “*In appropriate cases*” => door open to margin of appreciation.
- Seizure, forfeiture and destruction → no mention of “disposal outside the channels of commerce”.

## 2.4. US/China dispute (DS 362)

- In 2007, USA filed a complaint with the WTO (requesting a panel to be constituted) against various Chinese IP enforcement measures for not complying with TRIPS, incl. customs measures relating to the disposal of infringing goods.
- WTO Panel: Report on January 26, 2009 – important interpretation of Articles 46 and 59 TRIPS.

## 2.4. US/China dispute (DS 362)

- Article 27 of the Chinese IPR Customs Regulations:

*“Where the confiscated goods which infringe on [IPRs] can be used for the social public welfare undertakings, Customs shall hand such goods over to relevant public welfare bodies for the use in social public welfare undertakings. Where the holder of the [IPRs] intends to buy them, Customs can assign them to the holder of the [IPRs] with compensation. Where the [infringing] confiscated goods [...] cannot be used for social public welfare undertakings and the holder of the [IPRs] had no intention to buy them, Customs can, after eradicating the infringing features, auction them off according to law. Where the infringing features are impossible to eradicate, Customs shall destroy the goods”.*

## 2.4. US/China dispute (DS 362)

- Article 27 of the Chinese Customs IPR Regulations set out four different options “in cascade” for the disposal or destruction of goods:
  - Donation to social public welfare undertaking ...
  - ... or purchase by the right holder ;
  - If not, auctioning off after eradicating of the infringing features ;
  - If not, destruction.

## 2.4. US/China dispute (DS 362)

- Donation to social public welfare undertakings : OK
  - // Principles < Art. 46 TRIPS: Customs must have the authority to order that the goods be disposed of outside the channels of commerce and are responsible to ensure that the manner in which the goods are disposed is designed in such a way that it will avoid any harm to the right holder.
  - MoU with the Chinese Red Cross
    - undertaking not to use the donated goods for other purpose or to introduce them in the channels of commerce.

## 2.4. US/China dispute (DS 362)

- Sale to the right holder
  - The right holder pays => harm to the right holder?
  - Voluntary
  - Alternative between donation – sale to the right holder with no prevalence => sale to the right holder is not the only available option and it doesn't preclude the authority required by Article 59 TRIPS.

=> OK

## 2.4. US/China dispute (DS 362)

### ■ Auction

- Not a form of disposal outside the channels of commerce...
- ... but remedies mentioned under Art. 59 TRIPS are not exhaustive => not inconsistent *per se* with Art. 59.
- “*can*” => faculty instead of obligation if the two previous methods (disposal; sale) are not applied.
- The inability to eradicate infringing features precludes the auction method, but this doesn't imply that the ability to eradicate them precludes the destruction (“*can*”)  
=> the possibility of auction not contrary to Art. 59 *per se*

## 2.4. US/China dispute (DS 362)

### ■ Auction

■ But Art. 27 Chinese IPR Customs Regulation => auction with removal of the TM unlawfully affixed.

→ “simple removal” because it’s the sole action prior to the auction.

→ no demonstration of exceptional case.

=> contrary to Article 59 TRIPS such as incorporating the principle set out in Article 46 TRIPS *in fine*

### 3. Disp. & Destr.: Concrete Challenges

- See study of David J. Blakemore related to existing methods of disposal and destruction of counterfeit and pirated goods within the Asia-Pacific Region:
  - [http://www.wipo.int/edocs/mdocs/enforcement/en/wipo\\_ace\\_6/wipo\\_ace\\_6\\_8.pdf](http://www.wipo.int/edocs/mdocs/enforcement/en/wipo_ace_6/wipo_ace_6_8.pdf)
  
- See [http://www.wipo.int/wipo\\_magazine/en/2012/06/article\\_0007.html](http://www.wipo.int/wipo_magazine/en/2012/06/article_0007.html)

## 3. Concrete Challenges

- Physical volume of IPR infringing goods in world trade:
  - On the basis of OECD estimate as to volume of infringing goods in the world trade (1,95%) and of the available statistic data re. the volume of goods transported by sea/air, the physical volume of infringing goods could be estimated at 2.39 million TEU for 2007 → amounts to **6500 full 20ft containers passing through official controls each day**

## 3. Concrete Challenges

- The range of infringing goods is increasing:
  - It affects almost all industry sectors ;
  - Disposal procedures are becoming more technically complex, costly and onerous for governments and rights holders ;
  - Counterfeit products increasingly present a direct threat to consumers and the wider environment.

## 3. Concrete Challenges

- Consumer protection concerns:
  - The range of infringing goods that present a direct or indirect threat to consumers is increasing ;
  - They include: pharmaceuticals, household products, foodstuffs, automotive/aircraft parts, industrial electrical wiring/relays, fire extinguishing equipment, refrigerants, security products, alcohol, consumer electrical goods, cigarettes, etc. ;
  - Disposal procedures must be effective and 100% secure to ensure that they are not re-introduced into the channels of commerce.

## 3. Concrete Challenges

- Environment concerns:
  - Growing consciousness of the need to manage the environmental impact of infringing goods ;
  - Some counterfeit goods present a direct and toxic threat to the environment: insecticides, pesticides, ozone depleting substances, etc. ;
  - Requirement to use careful, environmentally friendly, destruction methods ;
  - Maximize the use of recycling.

## 3. Concrete Challenges

- The principal methods of disposal used in the studied region are:
  - recycling ;
  - open air burning ;
  - shredding ;
  - crushing ;
  - burying in landfill ;
  - donation for humanitarian relief.

### 3. Concrete Challenges

- The methods adopted depend on the nature of the goods requiring disposal as well as the availability of appropriate disposal facilities
  
- *Quid* transport hazardous IP infringing goods to countries with appropriate disposal facilities?
  - Legislation? Customs regulations? Compliance with multi-lateral environment agreements (e.g., Montreal protocol on Substances that Deplete the Ozone Layer; Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal)?

### 3. Concrete Challenges

- European Anti-Counterfeiting Network React (see [http://www.wipo.int/edocs/mdocs/enforcement/en/wipo\\_ace\\_5/wipo\\_ace\\_5\\_7.pdf](http://www.wipo.int/edocs/mdocs/enforcement/en/wipo_ace_5/wipo_ace_5_7.pdf) )
  - Recycles 95% of all counterfeits seized in the Netherlands
  - Goods are sent to specially designated processing warehouses for dismantling
  - Separated parts sold to recycling companies
  - Raw materials subsequently purchased by manufacturers
  
- Christian Charity His Church
  - De-brands fake designer clothes and inserts the His Church logo
  - Provides them to homeless and people in need in the UK/deprived people in the developing world

## 3. Concrete Challenges

- Some issues arising from Mr. Blakemore's Study:
  - The cost of secure storage and demurrage can be high due to protracted litigation
  - There are additional public interest considerations to ensure that infringing goods are held securely and do not migrate into channels of commerce, or create environmental/consumer risks.
  - Availability of suitable storage facilities?

## 3. Concrete Challenges

- Some issues arising from Mr. Blakemore's Study:
  - Civil, criminal and administrative remedies should provide complete relief for disposal/storage costs where the counterfeiter can be identified.
  - Sometimes, in humanitarian relief situations, delays have occurred due to the affected rights holders uncertainty as to their corporate policy with respect to such matters.
  - Recycling of infringing products is a sensible way of putting infringing goods to good use while creating employment and mitigating costs.

## 4. Conclusion

- Ensuring effectiveness to the legal tools available.
- Costs; resources.
- Destruction and disposal – Environmental and human relief concerns.

Thank you for your attention!



[www.wipo.int/enforcement/en/](http://www.wipo.int/enforcement/en/)