

# Harmonization of Border Measures Concerning Goods in Transit in East Asia and Modification of Relevant Provisions in Japanese Industrial Property Laws\*

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*In order to provide substantive basis for border measures concerning goods in transit, it is necessary for Japan to adjust relevant provisions in industrial property laws and entitle the proprietor of industrial property to prevent infringing goods in transit from being brought into Japan. When dealing with goods in transit, the new approach must take into account of the legal status of goods in transit in the country of destination, and only allows the right holder to refuse the release of the infringing goods in transit when the right holder also has right to prohibit importation of such goods into the country of destination. Based on such approach, the harmonization of border measures concerning goods in transit may reconcile the interests of the trade partners in the region of east Asia.*

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## **I. Introduction**

Obligated by plurilateral, regional or bilateral trade agreements, countries in the region of east Asia, such as Japan, China and South Korea, either have already adopted or is going to adopt intellectual property enforcement border measures on goods in transit. However, none of the industrial property laws in these states has specifically provided substantive rights to prevent goods in transit as the basis of such border measures.

In order to provide legal standards for the IP enforcement authorities to determine whether goods in transit infringe domestic industrial property rights, and harmonize the border measures concerning goods in transit in the region of east Asia, three issues relating to IP enforcement on goods in transit have been discussed in this report, namely the definition of goods in transit, substantive basis for IP enforcement border measures in domestic industrial property laws and restrictive conditions to border measures concerning goods in transit.

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## **II. Goods in transit and customs IP enforcement border measures**

### **1. Definition of goods in transit**

The concept of “goods in transit” varies in different jurisdictions. A generally accepted definition can be found from international instruments, such as TRIPS, GATT, ACTA and Revised Kyoto Convention. From the perspective of international context, in-transit is a customs procedure which allows foreign goods temporarily passing across the territory of the country of transit under customs control without going through the formality for import or export (releasing for free circulation), and may include transshipment, breaking bulk, placing in bonded warehouses, bonded areas or free zones, and other customs procedures under which the goods are not released for free circulation and are kept under customs control.

### **2. IP enforcement border measures concerning goods in transit**

As provisional measures to control the movement of suspected IP infringing goods in transit, Customs authorities may suspend the release of suspected goods in transit upon their own initiative (*ex officio*) or request of a right holder. As the condition to suspend the release of goods into free circulation, the customs authorities also have the authority to require an applicant to provide a reasonable security or equivalent assurance sufficient. The customs provisional measures shall be reviewed by a judicial or other independent authority through the proceedings leading to a decision on the merits of the case initiated by IP right holders or the owner, declarant, or consignee of goods in transit. Customs or other competent authorities also have the authority to order the destruction or disposal of infringing goods subject to judicial review.

## **III. International framework of border measures concerning goods in transit**

### **1. Obligation of IP enforcement border measures concerning goods in transit**

In the post-TRIPS age, more and more plurilateral, regional and bilateral trade agreements, such as, US-Mexico-Canada Agreement, US-Korea Free Trade Agreement, Sino-Korea Free Trade Agreement and Agreement between Japan and Australia for an Economic Partnership, start to adopt border measures concerning goods in transit as a typical TRIPS-plus IP enforcement approach, and oblige members to take customs actions against suspect goods in transit *ex officio* and/or on request of a right holder. Although the trade agreements with compulsory border measures on goods in transit

only have limited number of contracting parties, their influence and legal effect should not be underestimated because of the advantages of their contracting parties in trade negotiations and the diffusing effect of the most-favoured-nation treatment (MFN) in TRIPS Agreement.

## **2. Restrictions on domestic legislation**

Although TRIPS Members are allowed to implement more extensive protection than required by TRIPS, it is argued that the border measures on goods in transit in domestic legislations shall not exceed the restrictions in WTO system. Measures and procedures to enforce intellectual property rights shall not create barriers to legitimate trade, especially legitimate international trade of pharmaceutical products provided in Doha Declaration on the TRIPS Agreement and Public Health, or contradict the principle of freedom of transit in GATT.

## **3. Spaces for domestic legislation and regional harmonization**

Lack of substantive rules on IP enforcement border measures on goods in transit, the current international framework on trade issues leave plenty of spaces for domestic legislation to define the conditions of substantive right of transit and the manner to enforce it.

# **IV. Domestic rules on IP enforcement measures on goods in transit**

## **1. The scope of goods in transit in Japan's Customs Act**

In Japan's Customs Act, the concept of "goods in transit" may be covered by the concept of "foreign goods". Five types of goods in Japan's Customs Act, i.e. offshore transshipment, berthing with the intention of unloading, temporary unloading, reshipment and customs transit may fall in the scope of goods in transit in the sense of this research.

## **2. Customs IP enforcement border measures on goods in transit**

In Japan's Customs Act, there are five situations relating to cross-border goods subject to customs IP enforcement measures, which include storage of foreign goods in bonded areas, customs transit, exportation, importation and reshipment. Japanese customs may take IP enforcement border measures against exportation, importation and reshipment either on request or *ex officio*, while there are only *ex officio* customs measures available for storage in bonded areas and customs transit.

### **3. Corresponding substantive rules in industrial property laws**

In Japan's industrial property laws, the definition of "use" or "working" the subject matter of industrial property and the scope of IP infringement acts include import and export, but do not expressly include goods in transit. Certain situation of goods in transit, such as reshipment, is regarded as export by the interpretation of JPO, while others are unclear. Although certain scholars suggest that carrying goods into bonded areas should be regarded as importing and therefore may constitute IP infringement, there is no consensus and judicial decision on this issue yet.

## **V. Comparative analysis of approaches dealing with goods in transit**

### **1. People's Republic of China**

In the Customs Law of China, goods in transit correspond to goods passing through Chinese territory temporarily, which covers transit goods, transshipment goods and through goods, goods granted with specific duty reduction and exemption, temporary import and export goods, bonded goods and other inward and outward goods for which Customs formalities have not been completed.

According to the Regulations of China on Customs Protection of Intellectual Property Rights, Chinese customs authorities do not have legal authorization to take IP enforcement action against goods in transit. However, China-Korea Free Trade Agreement requires China to adopt border measures on transshipment, placement under a free zone and placement under a bonded warehouse of goods infringing an intellectual property right in domestic legislations.

There is no substantive exclusive right to prevent goods in transit in China's Trademark Law and Patent Law. Supreme Court decisions on label processing goods solely for exportation make goods in transit difficult to be deemed as trademark infringement, while it seems that at least patented goods in bonded areas may be deemed as import goods and constitute patent infringement.

### **2. Republic of Korea**

South Korea adopts a broader concept of "goods in transit" in practice, which includes transshipment, placement under a free zone and placement under a bonded warehouse of goods. The Korean Customs Act expressly authorizes customs office to apply IP enforcement border measures on transshipment and combined transshipment goods, goods shipment into a bonded area, bonded transportation goods, or temporary unloading goods either ex officio or on request of a right holder.

The industrial property laws in Korea do not expressly grant substantive right to right holders

to prevent suspected IP infringing goods in transit from being released into free circulation. Trademark protected goods in transit may be deemed as either export or import, while patented goods in transit may only be deemed as import. The official attitude on this issue is not clear without effective judicial decision.

### **3. The United States**

The newly concluded United States-Mexico-Canada Agreement (USMCA) requires customs authority to initiate border measures *ex officio* against suspected counterfeit trademark goods or pirated copyright goods under customs control that are in transit, and admitted into or exiting from a free trade zone or a bonded warehouse.

There are three parallel mechanisms offering protection to IP holders against infringing imports into the United States. The U.S. Customs and Border Protection (CBP) is authorized by the Customs Regulation to prohibit the importation of goods infringing trademarks, trade names and copyright. With respect to industrial property rights in addition to trademarks and trade names, CBP's authority is limited to enforcing exclusion orders issued by ITC and injunctions issued by civil courts. The U.S. International Trade Commission (ITC) is authorized under Section 337 of the Tariff Act of 1930 to investigate the unfair methods of competition and unfair acts in the importation of articles, and the importation of articles that infringe patent, trademarks, copyright, design and mask works. The United States court system, including federal and state courts, has broad jurisdiction on intellectual property disputes, and may direct Customs to engage in enforcement of intellectual property as part of any court ordered remedy.

Neither the Customs laws nor the industrial property laws explicitly provides border measures against goods in transit. However, the U.S. case law confirms that Foreign Trade Zone is within the jurisdiction of the Lanham Act, which protects marks having been registered in the United States Patent and Trademark Office from the deceptive use in "commerce which may be lawfully regulated by Congress", patent laws of the United States apply with full force and effect to the Foreign Trade Zone. Foreign goods entering a foreign trade zone are considered to be physically imported into the United States by an administrative decision made by the CBP.

### **4. European Union**

Regulation (EU) No 608/2013 and Community Customs Code, the subject matters of IP enforcement border measures may cover goods entering or leaving the customs territory of the Union without being placed under a customs procedure and goods placed under a suspensive procedure or

in a free zone or free warehouse.

Except in Finnish Trademarks Act 2006, there is no IP legislation in other EU member states which provides the substantive right for IP right holder to prevent goods in transit. In order to resolve this problem, a so-called “manufacturing fiction” has been developed by judicial practice, based on the ambiguous provisions in Council Regulation (EC) No 3295/94 and Council Regulation (EC) No 1383/2003. This unilateral approach also caused strong complain from developing countries, and was accused to be an unreasonable interruption to legal trade.

The decisions made by European Court of Justice held that goods in transit may only infringe the IP right in the country of transit when there is risk of diversion into the internal market. The ECJ decisions do not support manufacturing fiction, and deny the Regulation of Customs IP Enforcement may provide substantive legal basis for border measures against goods in transit. Regulation (EU) 608/2013 also confirms the Regulation does not set out substantive criteria for intellectual property infringement.

After an Understanding on Issue of Seizure of Indian Generic Drugs in Transit was reached between EU and India, EU not only removed the ambiguous legal basis of manufacturing fiction from its Customs Intellectual Property Rights Enforcement Regulation, but also granted the right to prevent counterfeit goods in transit to the trade mark proprietor in the Directive of Trademark Law provided the right holder is also entitled to prohibit the placing of the goods on the market in the country of final destination.

## **VI. Proposal for regional harmonization and modification of domestic laws**

The review of legal practices in different jurisdictions illustrates that goods in transit are treated quite differently in the industrial property laws in different jurisdictions. In order to choose the most appropriate solution, it is necessary to explore the policy goals behind those solutions and analyze which approach may reconcile different policy goals.

### **1. Policy goals behind different approaches**

There are different policy goals behind different approaches dealing with border measures on goods in transit. The first is protecting domestic market from being disrupted by counterfeiting goods, which is the policy goal behind traditional border measures on import. The second is impeding the global proliferation of IP infringing goods, which is the major consideration of border measures on goods in transit. The third one is facilitating international trade, which constitutes a restrictive condition to IP enforcement border measures as a primary policy goal of the World Trade

Organization. Finally, border measures on goods in transit should also be implemented in a manner supportive of WTO members' right to protect public health and, in particular, to promote access to medicines for all.

## **2. Evaluation of different approaches against policy goals**

Different approaches adopted in different jurisdictions may have different condition for border measures on goods in transit. In order to find the most proper solution, it is important to evaluate their compatibility with the above-mentioned policy goals.

The approach only considering the legal status in the country of transit may well achieve the policy goals to protect domestic market and impede proliferation of IP infringing goods, but cannot reconcile to the policy goals to facilitate international trade and protect public health.

Compared with the first approach, the approach also considering the legal status in the country of origin could be less harsh, and more compatible with the policy goals to facilitate international trade and protect public health. However, this approach may still be used to prevent the transit of goods which are legitimate in the country of destination, and thus may not be completely compatible with the policy goals to facilitate international trade and protect public health.

This approach also considering the legal status in the country of destination may stop the goods in transit infringing IP rights both in the country of transit and the country of destination, while still allows the goods which can be legally imported in the final destination pass through the country of transit. Therefore, it can be more compatible with the policy goals to facilitate international trade and protect public health compared with the above-mentioned approaches.

This approach considering the risk of diversion onto domestic market would allow goods in transit without risk of diversion onto the domestic market passing through the country of transit regardless their legal status in the country of origin and the country of destination. Therefore, this approach may be compatible with the policy goals of domestic market protection, trade facilitation and public health, but cannot be compatible with impediment of proliferation of IP infringing goods.

## **3. Solutions to related operational issues**

After the evaluation of different approaches against different policy goals, this report suggests countries in the region of east Asia to grant an exclusive right to prevent IP infringing goods in transit to right holders, and require the entitlement to prevent importation of the goods in the country of destination as the condition for the right holder to exercise the right of transit in the country of transit.

Considering foreign facts is not contradictory to the principle of territoriality when the

domestic IP rules formally counts legal status of cross-border goods in certain foreign countries as a condition of customs action. It is still the application of domestic law, not the application of foreign law to the domestic dispute.

In order to distribute the burden of proof properly, it is better to require the trademark owners in the country of transit also need to prove their entitlement of trademark rights in the country of destination. After the trademark owners in the country of transit prove they also enjoy trademark protection in the country of destination, the declarant or the holder of the goods needs to prove the trademark proprietor cannot prohibit the placing of the goods on the market in the country of final destination.

In addition to trademarks, this approach may also be expanded to other industrial property rights, since the basic issues resolved by this approach in the trademark area also exist in other areas of intellectual property irrespective of differences in the configuration of different IP rights.

#### **4. Contour of the substantive rights**

According to the afore analysis, this report suggests that the states in the region of east Asia, such as Japan, China and Korea, should adopt the right of transit in their industrial property laws, and take the legal status of goods in transit in the country of destination as the condition of the execution of the right of transit. In order to define the substantive right of transit accurately, the proposed provision shall consider at least the following factors.

The subject matters of the right of transit for patent, utility model and design shall cover all infringing goods. The subject matters of the right of transit for trademarks only include goods bearing without authorization a trade mark which is identical with the trade mark registered in respect of such goods, or which cannot be distinguished in its essential aspects from that trade mark.

“Carrying in transit” shall be added into the definition of “use” or “working”, or the scope of the exclusive rights, parallel with producing, using, assigning, exporting, importing, or offering for assignment an IP protected product.

Since the expressions of the scope of transit are different in different countries, in each industrial property law, there should be a separate provision to provide the definition of “transit”, which should be consistent with the scope of transit provided by relevant provisions in customs laws in different jurisdictions.

This right to prevent goods in transit from being released into free circulation shall be lapse if the right holder’s entitlement of IP protection on the same subject matter in the country of destination cannot be proved, or the declarant or holder of the goods proves the right holder cannot prevent the goods being legally imported into the country of destination.



## **5. Model Provisions**

“Carry in transit” shall be inserted into the Article 2 of the Patent Act and the Article 2 of the Trademarks Act in Japan, Article 11 of Patent Law and Article 57 in Trademark Law in China, Article 2 of Patent Act and Article 2 of Trademark Act in Korea.

The definition of “goods in transit” shall be inserted into the Article 2 of the Patent Act and the Article 2 of the Trademarks Act in Japan, Article 11 of Patent Law and Article 57 in Trademark Law in China, Article 2 of Patent Act and Article 2 of Trademark Act in Korea.

The condition of considering legal status in the country of destination shall be inserted into the Article 68 of the Patent Act and the Article 37 of the Trademarks Act in Japan, Article 69 of Patent Law and Article 57 in Trademark Law in China, Article 94 of Patent Act and Article 108 of Trademark Act in Korea.