

Neutral Citation No.: [2008] NIMag 2

Ref:

*Judgment: approved by the Court for handing down  
(subject to editorial corrections)\**

Delivered: 09/12/08

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HER MAJESTY'S REVENUE COMMISSIONERS

-v-

PENBROOK ENTERPRISES LTD

Deputy District Judge (Magistrates' Courts) Rafferty

JUDGMENT

This matter concerns the importation of a quantity of electro chemical batteries from a non Member State into the territory of the European Union.

On 21 August 2007 a quantity of batteries were unloaded and required to clear Customs in Belfast. These batteries were destined for the premises of the Respondent in this matter, Penbrook Enterprises Ltd. During the course of 22 August 2007 the goods were examined and an initial suspicion was raised that they may infringe the intellectual property rights (hereinafter IPR's) of the Gillette Corporation regarding its Duracell brand.

On 23 August 2007 HMRC issued a Notice of Detention regarding these batteries. On 7 November 2007 an application to condemn the goods was initiated under the Customs & Excise Management Act 1979 (hereinafter CEMA). In particular, the application referred to Sections 49, 139 and 154.

It is this application which I am now required to determine.

It may be prudent at this stage to note that there is a significant European Communities aspect to this case. **Council Regulation 1383/2003** (hereinafter called the Basic Regulation) creates a system whereby the holder of IPR's could register those rights with HMRC and thereby create a detection and enforcement apparatus at the point of entry into a Nation State. During the course of hearing this was referred to as "a Customs watch" for the detection and detention of goods which may infringe the IPR's of registered parties.

The means and mode of registration were created by **Council Regulation 1891/2004** (hereinafter called the Implementing Regulation). I will return to this in the course of my ruling.

At the commencement of the hearing I was assisted by very helpful Skeleton Arguments drafted by Counsel for the Applicant and Respondent. Therein a number of what can be called preliminary issues were raised. In short there were 2 matters raised, namely:-

1. Were the applications made for protection by the IPR lawful and hence were the decisions to accept them thereafter also lawful?
2. Had the proceedings for condemnation been commenced in accordance with the relevant law?

I decided after a discussion with and representations from Counsel that it would be appropriate to determine these issues prior to the substantive issue as to whether or not the goods in fact infringed the intellectual property rights of Gillette/Duracell.

In this regard I heard evidence from Mr Jackson of HMRC who I found to be a candid and honest witness. The relevant portions of his evidence are dealt with in the ruling.

### **Relevant Legislation**

I now turn to the law governing this area and in particular the Basic and Implementing Regulations and also CEMA.

Article 5 of the Basic Regulation creates a system to engage the National Authority of Member States to police at the point of entry infringements of intellectual property rights that have been registered. Article 5(5) sets forth the procedure to be followed when making an Application for Action (hereinafter AA). Article 5(5) states as follows:-

5. The application for action shall be made out on a form established in accordance with the procedure referred to in Article 21(2); it must contain all the information needed to enable the goods in question to be readily recognised by the customs authorities, and in particular:

- (i) an accurate and detailed technical description of the goods;
- (ii) any specific information the right-holder may have concerning the type or pattern of fraud;
- (iii) the name and address of the contact person appointed by the right-holder.

The application for action must also contain the declaration required of the applicant by Article 6 and proof that the applicant holds the right for the goods in question.

It is to be noted that in two places the mandatory term “must” is used. This however is not the end of the matter because Article 5(8) is somewhat curious in its wording. Article 5(8) states as follows:-

8. Where the application does not contain the mandatory information listed in paragraph 5, the competent customs department may decide not to process the application for action; in that event it shall provide reasons for its decision and include information on the appeal procedure. The application can only be re-submitted when duly completed.

It will be noted from the reading of Article 5(8) that two things are noteworthy. Firstly, information in Article 5(5) is referred to as “mandatory”. Secondly, however, there is a clear implication that the “competent Customs authority” may accept applications where the mandatory information is not present. It is to be noted that this is by implication and is in fact stated in the reverse.

In construing the meaning and relationship between these two subsections, I remind myself that European Regulations tend to be less literal and are more purposive in their construction. Nevertheless, it appears to me that the mandatory language of Article 5(5) is clear. Insofar as Article 5(8) creates “a discretion” on the part of the competent Customs authority to accept an application which is absent the required information it appears to me that this must necessarily be limited to the context of what the legislation seeks to achieve and also by good sense.

The “listed” information may or may not be necessary or of assistance to the competent Customs authority in determining an application for action. For example Article 5(5)(ii) refers to fraud. It will be noted that there may in fact be no pattern of fraud. In addition, Article 5(5)(iii) states that the information must include the naming of an individual who can be contacted. This in fact may be the same individual who applies and there may be no nominated individual.

What is however essential to the proper consideration of an application to the competent Customs authority is firstly that a declaration of indemnity be included and secondly that there is proof that the Applicant for action is in fact the lawful holder of the intellectual property rights of the items concerned.

If there be any doubt about my interpretation of this Regulation I have had recourse to the preamble of the Implementing Regulation. Paragraph 4 therein specifically highlights the necessity of proof regarding the Intellectual Property Rights and their ownership.

In addition I have been referred to the Modern Law of Trademarks second edition. Therein the learned authors state as follows:-

22.49 It is at this stage that the Implementing Regulation becomes involved since it governs (inter alia) the manner in which AAs may be made. The implementing regulation lays down a number of conditions such as the fact that the proprietor may be represented by any person (including a collecting society). When the proprietor applies for ‘action’ to be taken, he must, in accordance with art 5(5) of the Basic Regulation provide a sufficiently detailed description of the goods so that HMRC can identify them, as well as proof of the fact that the trade mark rights relied upon exist as registered rights and contact details. In accordance with art 2 of

the Implementing Regulation this can be done in a variety of ways. A bare reading of art 2(1) (a) of the Implementing Regulation suggests that proof of the proprietor's entitlement (or the applicant making the AA, who must be the proprietor) may be achieved by either producing the relevant registration documentation (though not any renewal information) or by the production that an application for registration has been lodged. It is submitted that this is an unreal way of approaching the provision of proof of current registration since: (1) proof of past registration is no proof of current registration unless the relevant renewal documentation is also included; and (2) a mere application for a trade mark registration confers no rights and there is always the possibility that the application will not ripen into a registered trademark. Thus, an applicant lodging an AA can simply produce the application form along with evidence that it has been lodged in order to make a valid AA. It may be that art 5(5) of the Basic Regulation deals with this problem by making it a requirement that the proprietor must provide 'any other information they may have' which would presumably include the provision of renewal documentation or statements to the effect that though the trade mark rights in question had been applied for they had not been granted. From the foregoing quoted wording it would seem that there is duty of full and frank disclosure incumbent upon the application lodging an AA. However, the remaining wording appearing at art 5(8) of the Basic Regulation appears to qualify that assumption since it is, thereafter, stated that if information is not provided then the competent customs department is not obliged to act (but may do so). This problem came to be decided (under the old regulation, using different wording to the effect that the admissibility of the AA was not affected by the failure to provide all pertinent information) in the case of *Customs and Excise Comrs v Top High Development Ltd* where the application making the AA produced an

application form which revealed that there were in fact no registered rights at the time of lodging the AA. The Stipendiary Magistrate (now District Judge) held that to enable a person to provide proof of the existence of his registered trade mark rights by mere production of an application form would be wrong. First, the Basic Regulation expressly requires proof that the applicant making the AA is the holder of the rights in question (presumably at the time that the goods were brought into the country) and no amount of subordinate legislation (or the European equivalent, being the Implementing Regulation) could abrogate that requirement. Secondly, the wording of the Implementing Regulation does not inevitably lead to conflict with the Basic Regulation since there may be circumstances in other Member States where rights are conferred on deposit of an application form and it is to those situations that the Implementing Regulation is directed. Thirdly, to construe the 'Implementing Regulation as allowing a person to assert a powerful and in many respects unstoppable legal process by mere assertion that a particular form which confers no rights is contrary to common sense, nobody can enforce a right they do not have.' Finally, HMRC have acknowledged that they will only accept AAs which are accompanied by proof of extant rights. It is, therefore, submitted that to be valid an AA must be accompanied by proof that the trade mark is registered and was registered at the time that the goods entered the country."

Accordingly I am of the view that Article 5(5) is mandatory in respect particularly to the second paragraph requirements. These second paragraph requirements being that a fully signed indemnity be included and also that proof of the ownership of the Intellectual Property rights also accompanies the application.

On the evidence I have heard from Mr Johnston dealing with the application for action he was entirely candid and stated that he felt a decision would not have emanated from his office without this information being included. He accepted that the application form which was shown to me in evidence was marked with zeros in the relevant boxes indicating that no accompanying material had accompanied the application. He further conceded that despite his feeling that the proofs “may have” been on the file the settled state of his evidence was nevertheless that “I can’t say on oath that the proof of the trademarks accompanied the application. I didn’t do the application.” The trademarks referred to in the application are of course the United Kingdom trademarks. With regard to the communities trademarks the position was somewhat similar. Again no proof had been shown to the Court and it leaves me not satisfied on the balance of probabilities that the applications were properly made.

I will deal with the consequence of this finding at the end of my ruling.

The second issue for determination concerns Article 13(1) of the Basic Regulation. Here the submissions could not have been more divergent between the parties. The Applicant submits that this is of no application to this case whatsoever whilst the Respondent argues that it is of direct applicability.

I was referred in the course of argument to HMRC -v- Newberry which purports to show that CEMA is compatible with the ECHR Article 6 rights. That may very well be the case but Newberry is distinguished on the facts and on the law. In this case I am required to consider a regulation of the EC Commission which is of direct applicability and immediate effect. The “supremacy” of such EC Regulations within the Member State has long since been established in EC jurisprudence.



Article 13(1) states as follows:-

#### Article 13

1. If, within 10 working days of receipt of the notification of suspension of release or of detention, the customs office referred to in Article 9(1) has not been notified that proceedings have been initiated to determine whether an intellectual property right has been infringed under national law in accordance with Article 10 or has not received the right-holder's agreement provided for in Article 11(1) where applicable, release of the goods shall be granted, or their detention shall be ended, as appropriate, subject to completion of all custom formalities.

This period may be extended by a maximum of 10 working days in appropriate cases.

It is noteworthy that timescale of 10 days for the initiation of proceedings is created (subject to an extension by 10 days in an appropriate case). It is also noteworthy that the mandatory term "shall" is used in determination of the Acts to follow the situation where proceedings have not in fact been issued.

I have to say that I do not find such a timescale or a time requirement surprising. If one adopts a purposive construction, it is clear that the aim of this regulation is the determination of the competing property rights and where property rights are infringed the need for haste is very often required. Again I have had recourse to the Modern Law of Trademarks (2<sup>nd</sup> Edition). Therein at paragraph 22.120 it states as follows:-

22.120 Article 13 of the Basic Regulation provides for the procedure to be followed once goods have been suspended from further release or detained. Within 10 working days of 'notification' of suspension of release or detention, the customs office (that is the branch of HMRC which is sent the decision of HMRC in relation to an art 5 notice, usually the port office) must be notified:

'that proceedings have been initiated to determine whether an intellectual property right has been infringed under national law in accordance with Article 10 or has not received the right-holder's agreement provided for in Article 1(1) where applicable, release of the goods shall be granted, or their detention shall be ended, as appropriate, subject to completion of all customs formalities.'

The goods which are the subject of the suspension from further release or detention must then be released pending compliance with other requirements under CCC or other domestic legislation and 'subject to completion of all customs formalities'.

Accordingly, it seems clear to me that Article 13(1) is a regulation which is directly applicable and of immediate effect. It is therefore a regulation which must be complied with. Insofar as CEMA fails to give effect to Article 13(1) it must in accordance with EC jurisprudence be regarded as subordinate to the EC Regulation.

Accordingly, it seems to me that a necessary pre requisite for the continued detention of goods under the Basic Regulation is that proceedings before a competent forum, in this jurisdiction a Court, have been initiated within the timescale provided. In the absence of such proceedings the language of Article

13(1), being mandatory, the goods should be or should have been released subject to any other Customs clearances.

In this case proceedings were not initiated until 7 November 2007 which is well in excess of the 10 days provided for by Article 13(1) and is even in excess of the subsequent 10-day extension which can be given in an appropriate case.

### **Conclusion**

Having decided both points against the Applicant it seems to me that I cannot be satisfied that this application is properly grounded on the balance of probabilities. Factually, on the evidence before the Court, I am not satisfied on the balance of probabilities that Article 5(5) has been complied with. A necessary consequence of this evidential finding is that I cannot be satisfied that the application for action or the decision thereafter were properly made. In addition, it seems to me that on a proper construction of Article 13(1) it has not been complied with either. It seems to me that Article 13(1) is an EC regulation which is of direct applicability and immediate effect. Accordingly, with regret, I feel that I must dismiss this application.

The issue of costs has been raised by Counsel on behalf of the Respondent after hearing argument I declined to order costs against the HMRC. Accordingly costs will be borne by both parties equally.

**Neil Rafferty DDJ (MC)**