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1 ARTICLE 59

1.1 Text of Article 59

Remedies

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.

1.2 "infringing goods"

1. In *China – Intellectual Property Rights*, the Panel clarified that, when read in context with Article 51, the infringing goods covered by the first sentence of Article 59 are those covered, as a minimum, under Article 51, i.e. imported "counterfeit trademark or pirated copyright goods":

"The first sentence of Article 59 applies to 'infringing goods'. The ordinary meaning of these words is not limited to goods that infringe any specific rights. However, read in context, there are certain limitations. The first sentence of Article 51 provides for the relevant procedures to apply, as a minimum, to 'the importation' of 'counterfeit trademark or pirated copyright goods'. This applies to Article 59 for the reasons set out ... above."¹

2. In *China – Intellectual Property Rights*, the Panel also clarified that Article 59, when understood in context with Article 51, expressly allows Members, as an option, to provide for procedures at the border for *other* infringing goods:

"The second sentence provides for an optional extension to 'other infringements of intellectual property rights'. This is a reference both to goods that infringe trademarks and copyright without constituting counterfeit trademark goods or pirated copyright goods, as well as to goods that infringe other categories of intellectual property rights, such as patents. The second sentence includes an express condition that applies where Members provide border measures for other infringements of intellectual property rights, namely 'provided that the requirements of this Section are met'.² The

¹ Panel Report, *China – Intellectual Property Rights*, para. 7.221.

² (*footnote original*) There are some express differences between the procedures applicable to different goods: Article

"The Panel notes that the word 'authority' can be defined as 'power or right to enforce obedience; moral or legal supremacy; right to command or give a final decision.'⁸ The obligation is to 'have' authority not an obligation to 'exercise' authority.⁹ The phrase 'shall have the authority' is used throughout the enforcement obligations in Sections 2, 3 and 4 of Part III of the TRIPS Agreement, specifically, in Articles 43.1, 44.1, 45.1, 45.2, 46, 48.1, 50.1, 50.2, 50.3, 50.7, 53.1, 56 and 57.¹⁰ It can be contrasted with terminology used in the minimum standards of protection in Part II of the TRIPS Agreement.

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and 4. The second sentence of Article 59 and the fourth sentence of Article 46 apply in different circumstances and neither is in fact more specific than the other."²²

1.5.2

channels of commerce be 'in such a manner as to avoid any harm caused to the right holder'.

The Panel finds confirmation of this interpretation within Article 46. The fourth sentence of Article 46 expressly provides that simple removal of the trademark unlawfully affixed is not sufficient to permit release of counterfeit trademark goods *into* the channels of commerce other than in exceptional cases. In contrast, the first sentence of Article 46 contains a more general requirement that the requisite authority to order disposal of goods outside the channels of commerce shall be 'in such a manner as to avoid any harm caused to the right holder'. Whilst this reflects, in part, the fact that the first sentence does not only apply to counterfeit trademark goods, it also demonstrates that when goods are disposed of outside the channels of commerce, it is in such a manner as to avoid any harm caused to the right holder.

authorities 'shall have the authority' to make particular orders attaches to what the authorities are

China alleges that auctions of goods confiscated by Customs are subject to a reserve price that ensures that infringers do not have the opportunity to purchase the seized goods at an unreasonably low cost and reaffix counterfeit marks.

The Panel does not agree. As China itself stated in its rebuttal submission, 'the very principle of trademark protection is that a trademark distinguishes a good and allows for a significant market premium'. The Panel points out that a counterfeit trademark is designed to obtain some or all of that economic premium. When the counterfeit trademark is removed, the value of the good is diminished and is less than its market value if it is resold with a counterfeit trademark reattached. In other words, it remains economically viable for the importer or a third party to purchase the goods at auction and reattach the trademarks in order to infringe again, with the heightened risk of this occurring discussed ... above. In any case, there is no evidence that the prices established by the method used by China Customs are so high that it is no longer economically viable to purchase the goods and reattach the trademarks."³³

25. In making the above findings, the Panel also made various observations on the meaning and objective of the term "simple removal of the trademark":

"Viewed in light of the objective, the 'simple' removal of the trademark is principally a reference to the fact that the state of the goods is not altered in any other way so that the absence of the trademark is not an effective deterrent to further infringement. Removal of the trademark is not 'simple' if the state of the goods is altered sufficiently to deter further infringement.

...

a shipment of counterfeit goods, who has no means of recourse against the exporter and who has no means of reaffixing counterfeit trademarks to the goods, might constitute such a case. However, such cases must be narrowly circumscribed in order to satisfy the description of 'exceptional'. Even when narrowly circumscribed, application of the relevant provision must be rare, lest the so-called exception become the rule, or at least ordinary.

The Panel does not consider that 'exceptional cases' for the purposes of the fourth sentence of Article 46 may simply be demonstrated by a low rate of cases in which simple removal of the trademark is treated as sufficient to permit release of goods into the channels of commerce. Firstly, 'exceptional cases' within the meaning of the fourth sentence of Article 46, as incorporated in Article 59, is not assessed in terms of a proportion of all cases of infringing goods seized at the border. Secondly, such an approach to goods that have already been found to be counterfeit trademark goods would amount to a margin of tolerance of further infringement that is not consistent with the objective of Article 46 of creating an effective deterrent."³⁶

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³⁶ Panel Report, *China – Intellectual Property Rights*, paras. 7.391-7.392.