

VIETNAM

Tough penalties for import of refurbished hard drives

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On August 25, the Customs Department of Hai Phong issued two decisions sanctioning a Vietnamese company for the import of trade mark-infringing products and the import of prohibited goods, ending more than two months of Customs clearance suspension proceedings. The decisions are groundbreaking because of Customs' pioneering standpoint in dealing with refurbished goods.

Beginning with Customs recordal

To enforce its trade mark rights in Vietnam, a large Silicon Valley high-tech company obtained Customs recordal of its protected trade marks for products including computer hard drives, with the aim of seizing suspicious shipments at the border. Such recordal means that Customs offices either on a nationwide scale or at some designated ports of entry/exit will monitor incoming shipments for goods that possibly infringe the recorded trade marks.

As a result of this monitoring, in early June 2017, Customs informed the brand owner of a suspected inbound shipment containing 1,000 allegedly brand new hard drives bearing the company's trade marks. The drives were declared to be sold at a price of only \$3 per item, an indication that they were unlikely to be genuine, and were not imported by official distributors in Vietnam.

Given this suspicious information, our firm, on behalf of and under authorisation from the brand owner, filed a request for suspension of the shipment for further verification. After reviewing some sample hard drives taken from the shipment, the brand owner found that all of the drives were used and/or refurbished.

Are refurbished goods genuine or infringing?

It was discovered that some or all of the components of the hard drives were genuine and indeed manufactured by or under authorisation of the brand owner. However, according to Article 20 of Circular No 11/2015/TT-BKHCN of the Ministry of Science and Technology on the sanctioning of administrative violations in the field of industrial property (Circular 11), used, repaired or refurbished goods bearing protected trade marks are still regarded as trade mark-infringing if the goods mislead consumers as to the origin of the products or business entity. In this case, the drives should be deemed to infringe the brand owner's trade marks as the products were refurbished without the control and consent of the brand owner.

The Vietnamese importer argued that it did not consciously commit infringement, as it did not know the status of the drives at the time of purchase and import. Also, the drives were refurbished by the exporter, not the importer. However, conscious fault is not a compulsory condition in the finding of infringement. Any act breaking the law, either consciously or unconsciously, must be sanctioned. This regulation is also to prevent circumstances in which violators disingenuously raise "unconscious fault" to excuse their violation.

As a result, Customs agreed with the brand owner's position and imposed a fine of 78 million đ (\$3,500) on the importer for the import of trade mark-infringing products.

Destruction or removal of infringing elements

Another fundamental concern of the case was how to deal with the infringing drives. Article 11.17 of Decree No 99/2013/ND-CP of the government on sanctioning of administrative violations in industrial property sets out two remedial measures for infringing goods, namely destruction and removal of infringing elements. Under Article 4.2(d) of Circular 11, the more serious measure of destruction can be applied if: (i) the infringing elements cannot be removed from the goods; or (ii) the removal is not

able to completely prevent future infringement.

In this case, the infringing elements could not be removed from the hard drives due to the technical design. In addition, the drives had already been refurbished at least once – removal of the infringing elements could not ensure the prevention of a recurring violation. Thus, while only one of the two conditions is required for the destruction measure to be applied, these goods met both conditions. Finally, Customs decided to destroy all 1,000 drives bearing the concerned trade marks.

Import of prohibited goods

In addition to the infringement charge, the importer was imposed an additional fine of 30 million đ (\$1,333) for the import of prohibited goods, as Vietnam essentially forbids the importation of any secondhand/refurbished IT products, per Decree No 187/2013/ND-CP and Decision No 18/2016/QĐ-TTg of the prime minister. In total, Customs imposed a fine of 108 million đ (\$4,800) for two acts of infringement. This fine is unprecedented and considered one of the highest sanctions ever imposed by the Customs Department of Hai Phong for IP infringement.

This case shows the vital role of Customs recordal and seizure in IP enforcement in Vietnam. To the best of our knowledge, this was the first time in Vietnam that a huge quantity of refurbished goods was blocked and later destroyed as a result of a trade mark infringement charge in parallel with allegation of prohibited goods (refurbished IT products). The Hai Phong Customs Department's decisions are expected to be clear precedents for cases related to suspension of the clearance of goods in the future.