

**THE ROLE OF CUSTOMS IN THE ENFORCEMENT OF
INTELLECTUAL PROPERTY RIGHTS IN KENYA: A CASE FOR THE
EFFICIENT AND EFFECTIVE COMPLIANCE WITH BORDER
MEASURES AS PER SECTION 4 OF PART III OF THE TRIPS
AGREEMENT**

MBATIA LORNA GATHIGIA

G62/76481/2009

**A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS
OF LAWS (LL.M) OF THE UNIVERSITY OF NAIROBI**

2013

SCHOOL OF LAW

UNIVERSITY OF NAIROBI

NAIROBI



DECLARATION

I, **LORNA GATHIGIA MBATIA**, do hereby declare that this is my original work and has not been submitted and is not currently being submitted for a degree in any other University.

SIGNED.......... Date.....19/11/2013.....

LORNA GATHIGIA MBATIA

This thesis has been submitted for the award of the degree of Master of Laws (LL.M) which the candidate was registered with approval of the University of Nairobi Supervisor.

SIGNED.......... Date.....19/11/2013.....

NJARAMBA GICHUKI

LECTURER, SCHOOL OF LAW

UNIVERSITY OF NAIROBI

ACKNOWLEDGMENTS

I would like to express my profound gratitude to my supervisor Mr. Njaramba Gichuki who gave me invaluable assistance, guidance and insightful comments in writing this thesis. Your encouragement and support went a long way.

I would also like to thank Mr. Creck Buyonge Regional Manager, Sub-Saharan Africa at Centre for Customs & Excise Studies and Adjunct Associate Professor (Revenue & Customs) Faculty of Law, University of Canberra for his invaluable insights in the conceptualization of this thesis and for availing some books and articles referred to in this paper.

Finally, I thank the Mbatia family for their invaluable support and encouragement throughout my studies.

DEDICATION

I dedicate this project to my dear mother, the late Mrs. Marion Mbatia who passed on in the course of my LL.M studies. May the Lord rest your beautiful soul in eternal peace; to my father James Mbatia and siblings Joy and Sam for urging me on in more ways than I could ever imagine during the course of my post graduate studies. I love you all dearly. God bless you.

LIST OF ABBREVIATIONS

CHOGS	Commonwealth Heads of Government and States
EAC	East African Community
EACCMA	East African Community Customs Management Act
EC	European Commission
ECJ	European Court of Justice
EU	European Union
ICTSD	International centre for Trade and Sustainable Development.
IPRs	Intellectual Property Rights
KAM	Kenya Association of manufacturers
KRA	Kenya Revenue Authority
OAGC	Office of the Auditor General of Canada
TRIPs	Agreement on the Trade Related Aspects of Intellectual Property
VAT	Value Added Tax
WCO	World Customs Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

TABLE OF CONTENTS

ABSTRACT.....	9
CHAPTER ONE	10
INTRODUCTION.....	10
1.1 Background	10
1.2 Statement of the problem.....	14
1.3 Research questions	15
1.4 Research Objectives	15
1.5 Hypotheses.....	16
1.6 Justification of the Study	16
1.7 Conceptual framework.....	17
1.7.1 IPRS	17
1.7.2 Risk management	18
1.7.3 Monism and Dualism	19
1.8 Theoretical framework.....	20
1.9 Research design and methodology	22
1.10 Literature review	23
1.10.1 Customs and border management.....	23
1.10.2 Enforcement of IPR's through customs	24
1.10.3 Customs modernization.....	28
1.11 Limitations of the study.....	29
1.12 Chapter breakdown.....	30
AN OVERVIEW ON PROMOTING THE EFFICIENT AND EFFECTIVE ENFORCEMENT OF BORDER MEASURES BY CUSTOMS	32
2.1 Introduction	32
2.2 Economic analysis of law.....	32
2.2.1 Economic efficiency	33
2.2.1.1 Productive efficiency.....	33
2.2.1.2 Allocative efficiency	35
2.2.1.3 Dynamic efficiency	36

2.3 Organisational theory	36
2.3.1 Classical organisational theory.....	36
2.3.2 Modern organisational theory.....	38
2.4 Customs risk management.....	39
2.4.1 Establishing the context	39
2.4.1.1 Strategic risk management.....	40
2.4.1.2 Operational risk management.....	40
2.4.1.3 Tactical risk management.....	40
2.4.2 Identifying risks	41
2.4.3 Analysing risks.....	41
2.4.4 Assessing and prioritising risks	42
2.4.5 Addressing and treating risks	42
2.4.6 Monitoring and reviewing risk management - compliance measurement.....	43
2.5 Conclusion.....	43
 CHAPTER THREE.....	 44
 THE INSTITUTIONAL AND LEGISLATIVE FRAMEWORK GOVERNING IPR ENFORCEMENT BY CUSTOMS IN KENYA.....	 44
3.1 Introduction	44
3.2 The Institutional framework governing IPRs enforcement by customs	44
3.3 The legislative framework governing IPR enforcement by customs in Kenya.....	47
3.3.1 The Constitution of Kenya	47
3.3.2 The East African Community Customs Management Act.....	49
3.3.3 The Anti-Counterfeit Act.....	50
3.4 Conclusion.....	52
 CHAPTER FOUR.....	 53
 EFFECTIVE BORDER ENFORCEMENT OF IPRS IN A CUSTOMS UNION: A COMPARATIVE STUDY OF THE EUROPEAN UNION AND THE EAST AFRICAN COMMUNITY CUSTOMS UNION.....	 53
4.1 Introduction	53
4.2 The European Union Customs Union	53
4.2.1 Council Regulation (EEC) No 3842/86	55
4.2.2 Council Regulation no. 3295/94.....	56
4.2.3 Council Regulation (EC) No. 1383/2003.....	59
4.2.3.1 Proposals to amend Council Regulation (EC) No. 1383/2003.....	60
4.2.4 Regulation (EU) No 608/2013 (The 2013 Regulation)	61
4.2.5 Conclusion.....	63

4.3 The East African community Customs Union	64
4.3.1 The East African Community Anti-Counterfeit Bill 2011	64
4.3.1.2 Appointment and role of national anti-counterfeit institutions and the commissioner of customs	65
4.3.1.3 Recordation of IPRs	67
4.4 Conclusion.....	67
CHAPTER FIVE	69
5.1 Introduction	69
5.2 Clear delineation of roles	69
5.3 Resource allocation	70
5.4 Indemnity and security requirements	70
5.5 Customs recordation system	71
5.6 Deminimis exception	72
5.7 Regional Integration.....	72
5.8 Other measures.....	73
5.9 Conclusion.....	73
REFERENCES.....	75
APPENDIX I.....	83

ABSTRACT

The Kenya Revenue Authority (KRA) customs services department acknowledges that its primary function is to collect and account for import duty, VAT on imports and to collect other taxes on an agency basis. KRA's non revenue generating functions including the enforcement of Intellectual Property Rights (IPRs) in compliance with international obligations outlined in TRIPs are not given priority which translates into an increased risk of the proliferation of counterfeit goods in Kenya.

The problem is further compounded by the fact that KRA is underfunded and this has an adverse effect on its operations as reflected in staff shortages, lack of adequate training of staff and lack of procurement and maintenance of information communication and telecommunications (ICT) systems which hampers the enforcement of IPRs

This paper presents a study on the legislative and institutional framework governing the enforcement of IPRs through customs in Kenya and how the legislative and institutional framework can be reformed to enhance the current capacity of customs which is resource constrained to efficiently and effectively enforce IPRs in Kenya in compliance with the border measures outlined in TRIPs.

This study has identified a number of issues that need to be addressed as a way of promoting the efficient and effective enforcement of IPRs through customs in Kenya including the clear delineation of roles between customs officials and officials of the Anti-counterfeit agency, legislative amendments to provide for a customs recordation system, resource allocation within KRA, greater regional integration and harmonization of Intellectual Property laws in the East African Community, ensuring that the laws provides for indemnity and security requirements that are not unreasonable and burdensome and clarifying the deminimis exception to avoid its abuse.

CHAPTER ONE

INTRODUCTION

1.1 Background

Customs is defined as the government service that is responsible for the administration of customs law and the collection of import and export duties and taxes and which also has the responsibility for the application of other laws and regulations relating, inter alia, to the importation, transit and exportation of goods¹. This term is also used when referring to any part of the customs service or its main or subsidiary offices and also used adjectivally in connection with officials of customs, import or export duties control on goods, or any other matter within the purview of customs (customs officer, customs duties, customs office, customs declaration)².

Traditionally, the role of the customs management and administration systems is revenue collection. However, this role has changed over the years to include other objectives such as protection of society, combating piracy, drug trafficking, money laundering, terrorism, trade facilitation and security of the global supply chain. As much as all these roles are important, emphasis differs from country to country with customs administrations in developing countries focusing mainly on revenue collection. This can be attributed to the dependence of these economies on revenue from customs duties and other taxes³. In such an environment, Intellectual Property Rights (IPR) enforcement by customs is not a priority⁴.

Opinions about the impact of stronger IPR regimes are varied and continue to reflect issues that arose when the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) was debated⁵. Proponents of a strong IPR regime suggest that IPR protection fosters innovation in developing countries that are reforming their

¹ See for instance the WCO Glossary for Common Customs Terms for ASEAN available at <http://www.aseansec.org> (accessed on 8 September 2012).

² *Ibid.*

³ WCO, Intellectual property rights protection and enforcement: a priority for customs administrations in developing countries? a paper presented by Ghana customs administration to the 12th WCO regional conference held in Cameroun. Available at <http://www.wcoomd.org> (accessed on 20 March 2012).

⁴ For example the Kenya Revenue Authority (KRA) places emphasis on revenue collection – See outline on the role of KRA on <http://www.kra.go.ke>

⁵ TRIPS: *Agreement on Trade-Related Aspects of Intellectual Property Rights*, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, the legal texts: the results of the Uruguay round of multilateral trade negotiations 320 (1999), 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994).

IPR enforcement regimes. Proponents also argue that stronger IPR enforcement facilitates transfers of technology to reforming countries, increases foreign direct investment (FDI), and spurs industrial development ⁶.

The enforcement of IPRs at the border particularly emerged as a significant issue during the negotiations and drafting of TRIPS and the provisions relating to border measures borne out of such negotiations represent a fine balancing act between the rights of the right holders and those of the importers. Apart from the negotiations during the formulation of TRIPS, the role of customs administrations in fighting counterfeiting and piracy in international trade through strengthening of border measures for enforcement of intellectual property rights has been discussed in various fora at the international level. These include discussions at the World Intellectual Property Organization (WIPO) and the World Customs Organization (WCO)⁷.

In the year 2005, the WCO Enforcement Committee through collaboration with WIPO approved and adopted a revised version of model provisions, entitled *WCO Model provisions for national legislation to implement fair and effective border measures consistent with the TRIPS Agreement* ⁸. The purpose of the model provisions is to provide national authorities in charge of the preparation and modernization of customs and/or intellectual property legislation worldwide with recommendations for the implementation of border measures for the protection of intellectual property rights⁹.

In Kenya, the customs services department was established in 1978 under the Customs and Excise Act¹⁰. It has the primary function of collecting and accounting for import duty and value added tax (VAT) on imports and to collect a number of other taxes¹¹ on an agency basis. Apart from its fiscal responsibilities, the customs services department is responsible for facilitation of legitimate trade and protection of

⁶ Branstetter Et Al, 'Has the shift to stronger Intellectual Property Rights promoted technology transfer, FDI and Industrial development?' The WIPO journal 2010 Volume 2 Issue 1.

⁷ Gupta A, *Border Enforcement of Intellectual Property Rights in India: Recent Developments* 1(2) TRADE L. & DEV. 192 (2009).

⁸ see <http://www.wipo.int> (accessed on 24 March 2012).

⁹ See the preamble of the model provisions, available at <http://www.wcoipr.org> (accessed on 24 March 2012).

¹⁰ Chapter 472, Laws of Kenya.

¹¹ These taxes include the petroleum development levy, sugar levy, road maintenance levy, import declaration fee, road transit toll, directorate of civil aviation fees, air passenger service charge, Kenya airports authority concession fees and fees on motor vehicle permits.

society from illegal entry and exit of prohibited goods¹². As the agency of government entrusted with the responsibility to monitor and control imports and exports, the department is responsible for the implementation of the trade and customs clauses of regional trade agreements and implements and enforces the World Trade Organization (WTO) agreements to which Kenya has acceded. These include the Agreement on Customs Valuation (ACV) adopted by Kenya with effect from January 2000 and TRIPS¹³.

Although holders of IPRs have the primary responsibility to take measures to protect their rights, governments in developing countries like Kenya ought to recognize that it is in the public interest that customs authorities have the power in appropriate cases to assume an active role and take action on their own initiative in cases involving counterfeiting and piracy¹⁴. However, custom authorities are not able to take an active role in IPR enforcement since firstly; there is an emphasis placed on the revenue collection role of customs which invariably means that enforcement of IPRs by customs is relegated as non priority. Secondly, the Kenya Revenue Authority (KRA) lacks sufficient funding and finally, lack of proper skills¹⁵ all which constrain customs' capacity to enforce IPRS at the borders as shall be further discussed in this paper.

The modernization of customs laws and regulations and their supporting legal environment is an essential component of a reform effort. In many countries the customs code needs to be modernized, especially to exclude noncore customs elements, seek harmonization and compliance with agreed on international commitments, and ensure transparency and predictability by providing basic information on matters such as rules, decisions, consultation mechanisms, and adequate appeals processes¹⁶.

In terms of legislative reforms, there is a need to consider whether the current legislation on IPR enforcement through customs in Kenya is efficient and effective.

¹² See KRA, about customs available at <http://www.kra.go.ke> (accessed on 25 September 2012).

¹³ *Ibid*

¹⁴ ICTSD, *The Global Debate on the Enforcement of Intellectual Property Rights and Developing Countries*, ICTSD IPR and Sustainable Development Programme, Issue Paper No.22, ICTSD, Geneva, Switzerland 2009 at p. 52, available at <http://www.iprsonline.org> (accessed on 8 September 2012).

¹⁵ See KRA, *about the revenue administration reform and modernization programme*, available at <http://www.kra.go.ke> (accessed on 5 October 2012).

¹⁶ De Wulf L and Sokol B (Ed), *Customs Modernization Handbook*, (Washington DC: The World Bank, 2005) at p. XIX.

Further, legislative reforms are necessary to ensure that the laws comply with the border measures stipulated under TRIPS.

Efficiency is measured by comparing achieved productivity with a desired norm, target, or standard¹⁷. Efficiency is improved when more outputs of a given quality are produced with the same or fewer resource inputs, or when the same amount of output is produced with fewer resources¹⁸. Resource inputs in the case of customs would include an appropriate institutional structure, financial resources, technical resources as well as a technically skilled, motivated and an adequate workforce. The output expected from the resources would include improved border management enabling faster clearance and release of goods, increased integrity and transparency, explaining rules and making their application more predictable, improving intelligence and enforcement, and compliance with laws and regulations¹⁹.

Efficient legislation would therefore provide maximum benefits with the least possible amount of costs. Efficiency is closely linked to effectiveness because it is an important factor in determining the least-cost method of achieving desired outcomes²⁰. Effective legislation on the other hand achieves its legislative mandate, operates with the requisite accountability and control mechanisms in place, operates with the appropriate level of due process, is enforceable and enforced and operates with the right level of expertise²¹.

Risk management also needs to be considered as an underlying principle that informs legislative reforms and customs modernization as it enables customs to not only carry out its responsibilities effectively but also organize its resources and deploy them in a manner so as to improve its overall performance²². Such a fundamental approach has the potential to radically improve effectiveness and

¹⁷ See OAGC, *Understanding efficiency concepts*, available at <http://www.oagbvq.gc.ca> (accessed on 26 September 2012).

¹⁸ OAGC, *Ibid.*

¹⁹ See McLinden Et Al (Ed), *Border Management Modernization*, (Washington DC: The World Bank, 2005) at p.11.

²⁰ OAGC, *Supra.*

²¹ Donelan E, *Legislative Drafting – civil and common law approaches compared*, available at www.oecd.org (accessed on 25 March 2012).

²² WCO, *Risk Management Guide*, (Brussels: WCO, 2003) at p 4.

efficiency and can help significantly in the ability to deploy resources towards the greatest areas of risk²³.

This study shall focus on the efficient and effective enforcement of IPRs by a resource constrained customs in compliance with TRIPS and particularly the special requirements relating to border measures outlined in section 4 of part III of TRIP.

1.2 Statement of the problem

KRA's customs services department acknowledges that its primary function is to collect and account for import duty, VAT on imports and to collect other taxes on an agency basis²⁴. The functions of customs which are not viewed as revenue generating including the facilitation of legitimate trade, protection of society from illegal entry and exit of prohibited goods are considered as secondary and non priority which translates into an increased risk of the proliferation of counterfeit goods.

Even in instances in which IPR enforcement is given some level of attention, a primary concern to developing countries [including Kenya] are the administrative costs of a strong intellectual property enforcement regime; the costs incurred in building new institutional infrastructure; restructuring existing agencies; developing specialized expertise through training or other means and motivating and staffing customs offices²⁵.

This thesis considers the state of the current legislative and institutional framework governing the enforcement of IPRs through customs in Kenya whilst identifying the weaknesses in the legislation and institutional framework. The thesis shall also assess from a comparative study how Kenya's legislation on IPRs enforcement can be reformed to enhance the current capacity of customs which is resource constrained to efficiently and effectively enforce IPRs in Kenya in compliance with the border measures outlined in TRIPs.

²³ *Ibid.*

²⁴ See KRA, about customs, available at <http://www.kra.go.ke> (accessed on 25 September 2012), *Supra*.

²⁵ ICTSD, (2009), *Supra*, p.15.

1.3 Research questions

This study will undertake to answer the following questions:

- (i) Does the current legislative and institutional framework in Kenya enable customs which is resource constrained to efficiently and effectively enforce IPRs in Kenya in compliance with TRIPs?
- (ii) What are the legislative and institutional reforms necessary to enable customs to efficiently and effectively enforce IPRs in Kenya in compliance with section 4 of part III of TRIPs?

1.4 Research Objectives

This study shall examine the current legislative and institutional framework governing customs in its role of the enforcement of IPRs in Kenya and identify possible weaknesses in the legislative and institutional framework and finally to make proposals on the possible measures and legislative changes that can be undertaken to ensure the efficient and effective compliance with TRIPs.

Specifically, the study shall achieve the following:

- (i) Provide an overview of the economic analysis of law and modern organisational theory and their applicability to a resource constrained customs administration.
- (ii) Provide an overview of customs risk management and its application on the concepts of border enforcement of IPRS through customs as outlined under section 4 of part III of TRIPs.
- (iii) Provide a comparative study on efficient and effective border enforcement of IPRS in a customs union and the unique challenges and opportunities for IPR enforcement in a customs union, since Kenya is part of the East African Community Customs Union (EACCU).
- (iv) Provide proposals for an efficient and effective legislative regime on IPR enforcement through customs in Kenya in compliance with section 4 of part III of TRIPs.

1.5 Hypotheses

This study is based on the following hypotheses:

(i) The current institutional and legislative framework does not enable customs which is resource constrained to efficiently and effectively enforce IPRs in compliance with TRIPS.

(ii) Legislative and institutional reforms are necessary to enable customs to efficiently and effectively enforce IPRs in Kenya in compliance with section 4 of part III of TRIPS.

1.6 Justification of the Study

Customs and border protection officers constitute the front line of every country's defence against transboundary illegal trade. The protective function of customs administrations will even have greater importance in the decades to come as threats caused by global interconnectedness intensify²⁶.

According to Carsten Fink,²⁷ weak IPR enforcement in developing countries reflects fundamental institutional deficiencies. He argues that in many cases sustained reductions in IPR violations may invariably have to wait for broader institutional development. A customs administration regime that is weak in the protection of IPR translates to an overall weak intellectual property enforcement regime which in turn results in the proliferation of counterfeit goods.

However, a country like Kenya that considers the revenue collection role of customs as a priority will have to re-evaluate how customs handles IPR enforcement in light of its competing roles and resource allocation and its obligations under the WTO to implement and enforce TRIPs which it has acceded to²⁸.

In light of the advantages of efficient and effective legislative measures to promote the enforcement of IPR and conversely the risk posed by a weak border control

²⁶ United Nations Environmental Programme Green Customs Secretariat, *The Green Customs Initiative – Customs Protecting the Environment*, available at <http://www.greencustoms.org/background> (accessed on 13 September 2012).

²⁷ ICTSD, (2005), *Supra*, p. 19.

²⁸ See <http://www.kra.go.ke/index.php/customs-services/international-trade>, (accessed on 25 September 2012), *Supra*.

mechanism, it is imperative that the laws on IPR enforcement by customs are streamlined to ensure their efficacy and effectiveness.

This study shall therefore be useful as it shall suggest legislative and institutional reforms that will be required to enhance the capacity of customs to enforce IPRs in compliance with TRIPs whilst efficiently utilizing the resources available to this function of customs.

1.7 Conceptual framework

The study shall review and discuss the concept of risk management as an organizational philosophy that provides quantifiable improvements in the effectiveness and efficiency of a customs administration as a whole ²⁹ and its applicability in the enforcement of IPRs by customs. This study shall adopt a monist approach as opposed to a dualist approach in the interpretation of the relationship between domestic law and International law.

1.7.1 IPRS

IPRs are the rights given to persons over the creations of their minds. They are rights granted by governments to encourage innovation and creative output. Through these rights governments grant a temporary legal monopoly to the right holders by giving them the right to limit or control the use of their creations by others. These rights may be traded or licensed to others, usually in return for fees or royalty payments³⁰.

Allocating IPR to the creator of a work brings about two conflicting interests; that of the creator having the right to his creation thereby acting as an incentive to create and that of the public in the form of right to information. Even though these rights do not diminish by reason of them being shared, the role of these rights is to ensure that the information providers do not lose their right by reason of disclosure as the information can be used by an infinite number of people³¹.

²⁹ See Iordache E, *Aspects of Risk Management in a Customs Area*, University of Petesti 2011 at p. 50, available at <http://www.strategiimanageriala.ro> (accessed on 17 July 2012).

³⁰ Ilias S, *The Proposed Anti-Counterfeiting Trade Agreement: Background and Key Issues*, at p. 2, available at <http://www.fas.org> (accessed on 5 November 2013).

³¹ Mbote P, *Intellectual property protection in Africa: An assessment on the status of laws, research and policy analysis on Intellectual property in Kenya*, IELRC working paper 2005-2, p. 1 Available at <http://www.ielrc.org>,

IP takes the following main forms; copyright which protects original literary and artistic works³² ; trade marks which consist of any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings³³; patents which are granted for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application³⁴; industrial designs which are granted for the aesthetic features of an article; geographical indications which identify a good as originating in a territory, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin³⁵ and layout-designs or topographies of integrated circuits.

1.7.2 Risk management

A common characteristic of customs work is the high volume of transactions and the impossibility of checking all of them³⁶. Customs administrations therefore face the challenge of facilitating the movement of legitimate passengers and cargo while applying controls to detect customs fraud and other offences³⁷. These competing interests mean that it is necessary to find a balance between facilitation and control³⁸. One commonly quoted approach to assist customs to achieve their objectives – often with decreasing resources – is the exploitation of customs risk management (CRiM) principles and practices³⁹.

, quoting. Baer K, A Theory of Intellectual Property and the Biodiversity Treaty, 21 Syracuse J, Int'l L & Com. 259 (1995).

³² See Article 2 (1) of the Berne Convention for the protection of Literary and Artistic works. The expression "literary and artistic works" shall include every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression, such as books, pamphlets and other writings; lectures, addresses, sermons and other works of the same nature; dramatic or dramatico-musical works; choreographic works and entertainments in dumb show; musical compositions with or without words; cinematographic works to which are assimilated works expressed by a process analogous to cinematography; works of drawing, painting, architecture, sculpture, engraving and lithography; photographic works to which are assimilated works expressed by a process analogous to photography; works of applied art; illustrations, maps, plans, sketches and three-dimensional works relative to geography, topography, architecture or science.

³³ Article 15 (1) TRIPS

³⁴ Ibid, Article 27, TRIPS.

³⁵ Ibid, Article

³⁶ WCO and UNCTAD, *Risk management in customs procedures*' Technical Note No. 12 2008 available at http://r0.unctad.org/ttl/technical-notes/TN12_Risk_Management.pdf (accessed on 20 July 2012).

³⁷ Ibid.

³⁸ Ibid.

³⁹ See generally Hinsta J & Männistö, T Et Al, *Customs risk management (CRiM): A Survey of 24 WCO Member Administrations*, available at <http://www.wcoomd.org> (accessed on 9 September 2012).

In the context of customs management, "risk" means the likelihood that something will prevent the application of measures concerning the customs treatment of goods⁴⁰. To minimize the occurrence of risks, customs can use risk management as a technique to more effectively set priorities and more efficiently allocate resources necessary for maintaining a proper balance between controls and facilitating legitimate trade⁴¹. Risk management, in a technical sense, is therefore the term applied to the logical and systematic process of establishing the context, identifying the risk, analyzing the risk, evaluating the risk, treating the risk, monitoring the risk, and communicating risks and outcomes. It may be applied to any activity, function, or process in a way that will enable border agencies to reduce losses as much as possible and increase opportunities as much as possible. In fact, risk management is as much about identifying opportunities as it is about avoiding or mitigating undesirable consequences of risks⁴².

The benefits of applying a risk management approach include the accurate selection of high risk transactions and facilitating the movement of goods and people when rated as low risks, makes more effective use of existing skills and experience – giving better results; improves the quality of customs controls including information and accountability and finally the process helps administrations focus on priorities and in decisions on deploying limited resources to deal with the highest risks⁴³.

Customs risk management shall be relevant in this paper in assessing issues in IPR enforcement by customs including customs recordation systems, *de minimis* imports, indemnity and security requirements.

1.7.3 Monism and Dualism

A state is said to be monist when the international instruments that it has ratified are applicable directly without any need for domestic implementing legislation. According to Dixon⁴⁴, the monist approach supposes that international law and national law are simply two components of a single body of knowledge called 'law'. 'Law' is seen as a single entity of which 'national' and 'International' versions are merely particular

⁴⁰ Iordache E, (2011), *Supra*. p. 50.

⁴¹ *Ibid*.

⁴² McLinden et al, (2005), *Supra* p.101.

⁴³ Iordache E, (2011) *Supra* p.61.

⁴⁴ Dixon, M., "Textbook on International Law", (3rd Edition, London, 1996), p. 89

manifestations. Thus both sets of rules operate in the same sphere of influence and are concerned with the same subject matter. In the case of conflicts between the two systems, international law is said to prevail.

The dualist approach considers international law and national law as two distinct legal spheres which have nothing to do with each other⁴⁵. International law is seen to have effects only in the international sphere. For an international rule to become effective in the domestic legal order, it needs to be transformed into the sort of legal rule recognised by that legal order. If a legal order recognizes only for instance Acts of parliament as valid law, then the international law rule can only enter that legal order if it is given the form of such an Act of Parliament⁴⁶

Kenya is considered to be a monist state by virtue of Article 2 (5) of the Constitution of Kenya which stipulates that the general rules of international law shall form part of the laws of Kenya. Article 2 (6) also provides that any treaty or convention ratified by Kenya shall form part of the law of Kenya under this Constitution. Consequently, TRIPs which has been ratified⁴⁷ by Kenya forms part of the laws of Kenya.

1.8 Theoretical framework

According to Angharad and Oats⁴⁸ the redistribution of income and the provision of services in the form of public goods are among the obligations that a government owes its citizens. Due to the inefficiency of the private market, the provision of public goods such as security of life and property which the public might not be prepared to pay for directly, are therefore left in the hands of the government rather than the private market⁴⁹. One of the ways in which a government raises revenue to meet these objectives is by imposing taxes through the tax and customs administration system.

⁴⁵ Klabbbers J. , International Law, (Cambridge University Press, 2013), p 287

⁴⁶ Ibid, p 288.

⁴⁷ TRIPS was ratified by Kenya on 1 January 1995.

⁴⁸ Miller A & Oats L, *Principles of international taxation*, (Tottel publishing, 2 Pap/Psc edition, West Sussex , 2009) p. 3.

⁴⁹ Ibid.

As governments look to consolidate finances many have placed stricter limits on the funds available to tax administration⁵⁰. As a result, there is growing attention on increasing the efficiency of tax and customs administrations in order to reduce costs and promote compliance while performing the various roles the administrations are tasked with⁵¹.

This thesis shall be premised on the economic analysis of law. Economic analysis of law is the application of economic theory to the analysis of law. Economic concepts are used to explain the effects of laws, to assess which legal rules are economically efficient and to predict which legal rules will be promulgated⁵².

This thesis shall consider economic efficiency and specifically productive efficiency which assesses resource input and output in an organization as propounded by M.J. Farrell⁵³ and allocative and dynamic efficiency which deal with the efficient allocation of resources among alternative uses in an organisation where there is a focus on both the short term and the long term goals of the organisation as propounded by Joseph Schumpeter⁵⁴. Modern organisational theory⁵⁵ which requires that organisations adapt to changes in the environments in which they operate in is another theory that shall be relied on in this paper.

The economic analysis of law and the modern organisational theory are relevant to this paper since the revenue collection and tax administration role of customs is given a higher priority in Kenya which relies on custom duties as a major source of tax revenue and more resources are consequently channelled toward this role of customs. In order to ensure that customs deploys and utilizes the available resources efficiently and effectively to handle IPR enforcement, it would be imperative that the law is used as one of the tools to promote resource allocation and ultimately efficiency. To this end, it would be critical to evaluate the relevant laws to assess which legal rules promote efficiency and if the laws are found not to promote efficiency, then the economic analysis of law and modern organisational theories as

⁵⁰ See OECD, *Efficiency of tax administrations*, Government at a Glance ,2011 available at www.oecd.org (accessed on 5 October 2012).

⁵¹ *Ibid.*

⁵² See Posner, R, *Economic Analysis of Law*, (7th Ed, Aspen Publishers 2007).

⁵³ M.J. Farrell, *The measurement of productive efficiency*, Journal of the Royal Statistical Society. Series A (General)

Vol. 120, No. 3 (1957), p. 253.

⁵⁴ Schumpeter J, *Capitalism, Socialism and Democracy*, (3rd Ed, Harper Perennial 1962).

⁵⁵ See Hicks G & Gullet R et al, *Organizations: Theory and behaviour*, (McGraw-Hill, Michigan, 1975). p 245-259.

discussed in this paper would be used as a basis of predicting and suggesting what amendments to the law would be necessary to achieve the desired objective of efficiency.

1.9 Research design and methodology

This thesis shall adopt both a qualitative and analytical approach. The qualitative data collection will be done through the use of interviews as primary data to test the hypothesis of this study. Interviewees⁵⁶ from KRA's customs department and the Kenya Anti-Counterfeit agency shall provide insights on the enforcement of IPRs in Kenya.

The analytical approach⁵⁷ shall then be used to examine the current legislative framework for IPR enforcement through customs and to explore how efficient and effective legislation can be used by Customs to enhance IPR enforcement. Key legislative instruments that shall be referred to in this study include the Constitution of Kenya⁵⁸, The East African Community Customs Management Act (EACCMA), The Anti-Counterfeit Act⁵⁹ and TRIPs.

This study shall use a comparative study of the European Union (EU). The EU has been selected since it has the most updated legislation⁶⁰ on IPR enforcement through customs and there is integration and harmonization of the laws of its member states. Further, the EU like Kenya is a member of the WTO and WCO and is therefore obliged to implement and enforce TRIPs.

Library and internet based research shall be relied on as a source of both primary and secondary data. Particularly, internet resources like the WCO and the EU websites shall be valuable sources of online journals and legislative instruments that deal with customs administration.

⁵⁶ Mr F. Ndenga who is a customs revenue officer attached to the enforcement department at the port in Mombasa was selected as an interviewee as his job description includes enforcement of IPRS and Mr Kamau who is a legal officer at the Kenya Anti-counterfeit agency was selected to give insights on the implementation of the Anti-counterfeit Act and compliance with the provisions on border measures as outlined in TRIPs.

⁵⁷ See Graneheim, UH. and Lundman, B, *Qualitative content analysis in nursing research: Concepts, procedures and measures to achieve trustworthiness*, 24, at p. 105-112. Qualitative content analytical approaches focus on analyzing both the explicit or manifest content of a text as well as interpretations of the 'latent content' of texts that which can be interpreted or interpolated from the text, but is not explicitly stated in it.

⁵⁸ The Constitution of Kenya 2010.

⁵⁹ Act No 13 of 2008, Laws of Kenya.

⁶⁰ For example, even before the enactment of TRIPs, the EU already had legislation on IPR enforcement by customs.

1.10 Literature review

1.10.1 Customs and border management

The border environment is complex and comprises a variety of actors with conflicting interests. As O'Dowd states, borders are 'places of economic and political opportunity for nations and states as well as for a host of other interest groups and agencies, legal and illegal'. Throughout human history borders have played a major role in the state by being a silent tribute to its sovereignty⁶¹.

Another way of reconfiguration of borders is to examine the changing role of borders as barriers, bridges, resources and symbols of identity. These metaphors mark analytical distinctions between four interrelated dimensions or functions of state borders. In practice, of course, all borders serve simultaneously as barriers, bridges, resources and symbols of identity even if some dimensions appear more salient than others depending on the location of the border, or the issue or context involved⁶².

With the move towards e-government and private sector submission of electronic data which enables the preclearance of passengers and cargo, thereby removing the necessity of inspection at territorial boundaries, borders may increasingly exist de facto in cyberspace, i.e., become "virtual borders"⁶³.

Borders connect countries with each other and the effectiveness and smooth operation of these connections are central to the economic and social development of countries. At the same time, the protection of the border is essential for the protection of the State and its people and economy. In the context of a developmental State, the border also has special significance. The border and flows of people and goods across that border connects the state to economic opportunities through trade, tourism and foreign investment. At the same time, these flows also present risks. It has been recognised that the real difference with respect to success or failure in economic development is made by, amongst others, the creation of

⁶¹ Polner M, 'Coordinated border management: From Theory to Practice', available at <http://www.wcoomd.org> (accessed on 10 July 2013).

⁶² O'Dowd L. 'Analyzing Europe's borders'. IBRU Boundary and Security Bulletin, Summer 2001 Available at <http://www.dur.ac.uk> (accessed on 9 July 2013).

⁶³ See Koslowski R, 'Real challenges for virtual border', available at <http://www.migrationpolicy.org> (accessed on 9 September 2012).

appropriate policy and legal frameworks that are enforced by a competent and effective state institutional infrastructure⁶⁴.

Customs administration at the start of the 21st century is best understood in terms of managing border zones and flows. Landley et al have discussed key challenges that are likely to confront customs administrations and the need for the administrations to embrace change especially in light of the modern day trends of forming customs unions in which border management does not necessarily take place along the physical borders of member states but in channeled 'border zones' such as seaports and airports and specific land border crossing points⁶⁵.

McLinden et al⁶⁶ address the issue of key developments in and principles for improving trade facilitation through better border management. Their study for example discusses effective border clearance of goods in the sense that outdated and overly bureaucratic border clearance processes imposed by customs and other agencies are seen as posing greater barriers to trade than tariffs do. Legislative changes based on international instruments are recommended since they provide higher predictability and transparency for the trading community and investors. The key limitation of this literature to this study is that it focuses on border management in terms of trade facilitation and does not delve into border management in the context of IPR enforcement. The book however is invaluable as it provides insights on regional integration and border management in countries that are members of a customs union as is the case with Kenya.

1.10.2 Enforcement of IPR's through customs

Widdowson⁶⁷ notes that the role of customs is primarily determined by the priorities of the relevant country. Customs has been responsible for implementing a wide range of government policies including enforcement of intellectual property laws among others. He points out that this is generally achieved through the implementation of a diverse range of service level agreements, with customs having regulatory responsibility at the

⁶⁴ Kieck E, Coordinated border management: unlocking trade opportunities through one stop border posts, p. 5 Available at <http://www.worldcustomsjournal.org> (accessed on 17 July 2013).

⁶⁵ Landley et al, 'Conceptualising the Border and Customs in the 21st Century - or How to Outfox the Future' available at <http://igps.victoria.ac.nz> (accessed on 24 March 2012).

⁶⁶ See McLinden Et Al (Ed), (2005) ,*Supra*.

⁶⁷ Widdowson, D, 'The changing role of customs-Evolution or revolution' World Customs Organization Journal, Vol 1, 1. Available at <http://worldcustomsjournal.org> (accessed on 23 March 2012).

point of importation and exportation. This border management responsibilities he observes stem from the more traditional customs role of collecting duties on internationally traded commodities. He further notes that in many developing and least developed countries, import duties and related taxes represent a significant proportion of the national revenue. This leaves the customs authority with the primary function of revenue collection. This is however not the position with the developed countries which do not rely on imports as the major sources of government revenue. These countries have an increased focus on border protection with a projected emphasis on the enforcement of import and export prohibitions and restrictions.

In his key note speech during the third global congress on combating counterfeiting and piracy, Amos Wako⁶⁸ stated that customs authorities play an important role in the fight against counterfeit and pirated products. He observed that border measures have become a useful tool in dealing with counterfeit noting that counterfeiters are known to reproduce or manufacture the counterfeit goods in countries where there are weak intellectual property laws and enforcement mechanisms and exporting them to countries that have high demand for the goods. He underscored the importance of the customs role in curtailing pirated and counterfeit goods due to the increased cross border trade in the same. He pointed out certain administrative measures conferred upon the customs officers to help them deal with counterfeit goods including among others seizure and destruction of goods that are prohibited by the laws of the country. With regard to goods infringing IPRS, he observes that customs officials are empowered to seize and detain suspected pirated goods until a competent court can determine the matter. However, these measures are evidently not effective in Kenya. He notes that according to the Kenya Revenue Authority, counterfeiting costs the Government of Kenya shillings 6 billion (about \$ 84 million) in lost revenue annually.

Gupta⁶⁹ emphasizes that developed countries have traditionally been the centres of innovation and research. This he attributes to a good intellectual property regime which is important for the promotion of creative pursuits and innovative activities. On the other hand, he observes that developing countries have traditionally provided

⁶⁸ Wako A, Promoting Better Legislation and Enforcement of Intellectual Property Rights in Kenya, Key note address during the third global congress on combating counterfeiting and piracy at the international conference centre in Geneva, Switzerland on January 30 2007.

⁶⁹ See generally Gupta A , Border Enforcement of Intellectual Property Rights in India: Recent Developments 1(2) TRADE L. & DEV. 192 (2009) .

comparatively weaker intellectual property protection. According to him, this is the case as these countries view intellectual property reforms as prejudicial to their national interests and indigenous needs.⁷⁰ He observes that though the fundamental incentives posed by various forms of intellectual property are similar across the board, developing nations differ from their developed counterparts in their innovative potential, the education of their workforce, the structure and funding of research and development, and the management of technological assets⁷¹. This explains the basis for the development of different standards of intellectual property protection among developed and developing countries. Such different standards of intellectual property protection may act as impediments to trade. Increased intellectual property protection has a significant link with trade⁷². Gupta views this as the reason for international efforts to harmonize standards of intellectual property protection through TRIPs.

TRIPs has in its basic objectives the protection and enforcement of IPR in order to contribute to the promotion of technology transfer, innovation and dissemination of technology⁷³. A key feature of TRIPs is the obligation of members to introduce border measures for the protection of IPRs. Prior to TRIPs, border measures were rarely used as a means to enforce IPRs⁷⁴. However, the concern about the trade in pirated and counterfeit goods precipitated the interest of GATT in intellectual property protection of which it was expected that the architects of TRIPs would look to the customs authorities to assist in the interdiction of this trade. It is obviously more effective to seize a single shipment of infringing products while they are in transit, rather than to await their distribution in the market⁷⁵.

Section 4 of part III of TRIPs particularly provides for border measures which deal with the enforcement of IPRs through customs including seizure and suspension of goods, ex-officio actions, security, indemnification of the importer and owner of

⁷⁰ He refers to Keith Maskus & Carsten Fink, *Intellectual Property and Development: Lessons from Recent Economic Research*. 2005.

⁷¹ Gupta A, (2009), *Supra*.

⁷² Fink C et al 'How Stronger Protection of Intellectual Property Rights Affects International Trade Flows', available at <http://www.aseanipa.org> (accessed on 8 July 2013).

⁷³ TRIPs, section 1.

⁷⁴ Viviana Muñoz Tellez, *The World Customs Organization: Setting New Standards of Intellectual Property Enforcement through the Back Door?* South Bulletin: Reflections and Foresights (Issue 13, 16 April 2008) p. 6 Available at <http://keionline.org> (accessed on 20 July 2012).

⁷⁵ Blackeney M, *Guidebook on Enforcement of Intellectual Property Rights*, Queen Mary Intellectual Property Research Institute Queen Mary, University of London, p. 37 Available at <http://trade.ec.europa.eu> (accessed on 31 March 2012).

goods, right of inspection and information, *de minimis* imports, remedies and release of suspended goods⁷⁶.

The WCO has published model provisions for national legislation to implement fair and effective border measures consistent with TRIPs which will be referred to in this paper⁷⁷. The purpose of this model legislation is to provide national authorities in charge of the preparation and modernisation of customs and/or intellectual property legislation worldwide with recommendations for the implementation of border measures for the protection of intellectual property rights. This guide is intended both for authorities that are introducing border measures for the enforcement of intellectual property rights (IPR) for the first time as well as for those that are conducting or considering legislative reviews or reforms⁷⁸.

Blackeney provides an overview of enforcement of IPRs from investigation through to administrative and judicial enforcement. Chapter four of his book is relevant to this paper as it discusses border measures for the protection of intellectual property rights in the context of TRIPs and specifically applications for the suspension of release of goods involving a suspected counterfeit trademark or which are pirated copyright goods, procedures for such applications, provision of security or equivalent assurance to protect the defendant and the competent authorities from wrongful suspension, Indemnification of the importer and of the owner of goods, ex-officio actions and remedies available to IPR holders.

Literature on border enforcement of IPRS in the EU that does not originate from the European Commission is sparse and does not include commentary and analysis on the various regulations on border enforcement of IPRs in the EU. The University of Alicante however has provided a guide to border enforcement of IPRs in the EU⁷⁹ of which it particularly discusses the provisions of Council Regulation (EC) No. 1383/2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights. The guide also includes best practices that can be used

⁷⁶ Appendix I hereto outlines the provisions of Section 4 of part III of TRIPs.

⁷⁷ See WCO, *Model Provisions for National Legislation to Implement Fair and Effective Border Measures Consistent with the Agreement on Trade-Related Aspects of Intellectual Property Rights*, Available at <http://www.wcoipr.org> (accessed on 24 March 2012).

⁷⁸ *Ibid.*

⁷⁹ University of Alicante, *Guide to border enforcement of IPRS in the EU*, Available on <http://www.transknowlia.org> (accessed on 17 August 2012).

to enhance the enforcement of IPRS by customs including national and international cooperation and coordination, public awareness and cooperation, right holder cooperation and the use of judicial measures as a deterrent to infringement.

1.10.3 Customs modernization

L.D Wulf *et al* acknowledge that effective customs modernization processes start with good initial diagnostic work to identify the shortcomings of the existing system, to define a strategy for reform, and to mobilize stakeholder support. Successful modernization also requires a comprehensive approach, that is, an approach that encompasses all aspects of customs administration to address the issues identified, as well as an adequate sequencing of actions. The book discusses various elements of customs modernization to keep up with the increased demands on customs. Chapter three of the book is particularly significant to this paper as it discusses the legal framework for customs operations and enforcement issues namely the characteristics of outdated customs legislation, preparation of a modernized customs code, enforcement of customs laws and model legislation for IPRs⁸⁰.

The KRA's fifth corporate plan⁸¹ provides a roadmap for KRA' s activities for three years ending in 2015. The formulation of the plan involved a process that included carrying out a Political , Economic, Social, Technological, Environmental and Legal environmental scan (PESTEL) as well as a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis⁸². Some of the weaknesses indentified in the plan include inadequate equipment and the staff development programmes as a result of underfunding of KRA's activities⁸³.The plan acknowledges the importance of adopting a risk management based approach as a way of enhancing the efficiency and effectiveness of its operations.

Iodorche⁸⁴ acknowledges that the development of customs control practices based on risk management has become synonymous with customs modernization. Due to the rapid rise in the volume of trade and limited resources of customs

⁸⁰ See generally De Wulf L & Sokol B (Ed), *Customs Modernization Handbook*, (Washington DC: The World Bank, 2005).

⁸¹ See KRA, *Fifth Corporate Plan 2012/2013-2014/2015*, (Nairobi, 2012), table 2.3 resource projections against actual provisions values in KES. min p. 22. Available at <http://www.kra.go.ke> (accessed on 1 October 2012).

⁸² *Ibid*, p.10.

⁸³ *Ibid*, p. 22.

⁸⁴ Iordache E, (2011) , *Supra* p. 50.

administrations, the traditional method of inspecting every item upon arrival at customs border has become a barrier to trade and is no longer practical.

In terms of providing guidelines on risk management, the WCO has published a risk management guide for customs administrations. The guide acknowledges that a risk management approach has the potential to radically improve effectiveness and efficiency and can help significantly in the ability to deploy resources towards the greatest areas of risk by for example ensuring that the extent of controls necessary to guarantee compliance with the laws and regulations which the customs are responsible for enforcing should be proportionate to the level of assessed risk. The guide is instrumental for this study as it contains relevant proposals on administrative procedures that can be incorporated in customs legislation to ensure effective and efficient control and monitoring of the movement of goods across national borders.

In the context of identifying risks in IPR enforcement by customs, a preliminary study to identify sectors of the economy that are attractive to counterfeiters would be useful. For example, a study commissioned by the Kenya Association of Manufacturers (KAM) identified luxury goods, automobile spare parts, pharmaceuticals, and Fast Moving Consumer Goods (FMCG) as goods that are likely to be counterfeited⁸⁵ and that the goods mainly originate from Far East countries, China being the main source of counterfeits into Kenya⁸⁶. Such information would be useful to customs as more resources would be channelled towards the inspection of goods that fit such a profile. In terms of controls to detect such risks, a customs recordation system would enable customs to detect goods that infringe IPRs.

1.11 Limitations of the study

A majority of scholarly works on customs management particularly focus on the role of customs in revenue collection and trade facilitation. Literature that focuses on the role of customs in IPRs enforcement is sparse. However, the scanty literature on the requirements on the enforcement of IPRs at the border at outlined in section 4 of part

⁸⁵ See KAM, *The study to determine severity of the counterfeit problem in Kenya as it affects industries and impact of proliferation of counterfeit products from other EAC partner states and Far East countries into the Kenyan market*, (Nairobi, 2012) at p. 7.

⁸⁶ *Ibid*, p. 29.

III of TRIPs will form an important basis for evaluating how customs in Kenya can efficiently and effectively enforce IPRs in compliance with international obligations.

This study is limited to the role of customs in the enforcement of IPRs. Consequently, the role of customs in revenue collection and trade facilitation shall be beyond the scope of this paper.

1.12 Chapter breakdown

This study is divided into five chapters as outlined below.

1.12.1 Chapter One

This chapter introduces the research area of the study. The chapter contains the background to the study, the problem statement, objectives of the study, justification of the study, the research question, the hypotheses, the conceptual framework, the theoretical framework, the methodology and the limitations of the study.

1.12.2 Chapter Two

This chapter highlights the use of the economic analysis of law to analyse the impact of legal rules, procedures, and institutions on a resource constrained revenue authority. The modern organizational theory shall also be discussed in the context of customs reforms to keep up with changes in its operational environment and finally how a customs administration can effectively and efficiently manage the limited resources allocated to it to enforce IPRs through the use of risk management.

1.12.3 Chapter Three

This chapter examines the legislative and institutional framework governing the enforcement of IPRs through customs in Kenya including the EACCMA and the Anti Counterfeit Act.

1.12.4 Chapter Four

This chapter explores the legislative approaches taken by the EU towards efficient and effective legislation on enforcement of IPRs in a customs union. The chapter shall also discuss the proposed East African Community Anti-counterfeit Bill 2011

and the extent of which it makes provisions for the enforcement of IPRs through customs in the East Africa Community Customs Union.

1.12.5 Chapter Five

This chapter contains the findings and proposals for reform in order to promote the efficient and effective enforcement of IPRs through customs in Kenya in compliance with section 4 of part III of TRIPs.

CHAPTER TWO

AN OVERVIEW ON PROMOTING THE EFFICIENT AND EFFECTIVE ENFORCEMENT OF BORDER MEASURES BY CUSTOMS

2.1 Introduction

Public and private sector organizations modify their structures continually to address new challenges, changes in workload, geographic expansion, competition, the introduction of new technology, and innovation⁸⁷. A customs administration is no exception and often struggles to find an ideal organization to match the constantly changing customs environment while grappling with scarce resources to perform its functions⁸⁸.

This chapter provides an overview of economic analysis of law and its significance to a revenue authority that is grappling with issues of inadequate resources and resource allocation. The discussion on modern organizational theory shall bring out the need for a revenue authority to keep up with change and how a customs administration can effectively and efficiently manage the scarce resources allocated to it to enforce IPRs.

2.2 Economic analysis of law

The field of economic analysis of law may be said to have begun with Jeremy Bentham and John Stuart Mill, the proponents of utilitarianism who systematically examined how actors would behave in the face of legal incentives and who evaluated outcomes with respect to a clearly stated measure of social welfare⁸⁹.

The classical utilitarians, Bentham and Mill, were concerned with legal and social reform. If anything could be identified as the fundamental motivation behind the development of classical utilitarianism it would be the desire to see useless, corrupt laws and social practices changed. Accomplishing this goal required a normative ethical theory employed as a critical tool. Developing the theory itself was also influenced by strong views about what was wrong in their society. The conviction

⁸⁷ De Wulf L & Sokol B (Ed) (2005), *Supra*, p. 36.

⁸⁸ *Ibid.*

⁸⁹ Polinsky M & Shavell S, *Economic Analysis of Law*, Harvard John M. Olin Center for Law, Economics, And Business, Discussion Paper No. 536 12/2005

p. 2

that, for example, some laws are bad resulted in the analysis of why they were bad. Their lack of utility is what made them bad according to Jeremy Bentham⁹⁰.

In the 1960s the pioneering work of Ronald Coase and Guido Calabresi brought to light the pervasive bearing of economics in all areas of the law⁹¹. The primary hypothesis advanced by positive economic analysis of law is that the notion of efficiency is the predominant factor shaping the rules, procedures, and institutions of the common law⁹².

The assessment of legal rules, procedures, and institutions from the lens of economics would help to answer the question of whether the rules, procedures, and institutions achieve the objective of efficiency and particularly in this instance, whether the current legislative and institutional framework in Kenya enable customs which is resource constrained to efficiently and effectively enforce IPRs in Kenya in compliance with TRIPs and if not, what proposals for reform would be necessary to achieve this objective.

2.2.1 Economic efficiency

The proponents of economic efficiency include M.J. Farrell and Joseph Schumpeter. Economic efficiency is based on a performance standard where the goal is to achieve one's purpose with a minimum of expense or effort⁹³. Economic efficiency may be defined in three ways; firstly, productive efficiency; secondly, allocative efficiency and finally, dynamic efficiency⁹⁴.

2.2.1.1 Productive efficiency

According to Farrell, productive efficiency is the use of the least amount of resources to produce a given good or service⁹⁵. Productive efficiency implies that organisations are using the least costly labour capital inputs, the best available technology, the

⁹⁰ Stanford Encyclopaedia of Psychology, The History of Utilitarianism, Available at <http://plato.stanford.edu> (accessed on 8 November 2013).

⁹¹ Parisi F, Positive, Normative and Functional Schools in Law and Economics, European Journal of Law and Economics, 18:p 259–272, 2004, p.2 Available at <http://www.law.gmu.edu> (accessed on 8 November 2013)

⁹² Ibid, p. 264

⁹³ EC Pauser Jr, *Economic Efficiency: Touchstone or mirage*, the intercollegiate review, 1981 available at <http://www.mmisi.org> (accessed on 5 October 2012) p. 31

⁹⁴ Dollery B & Wallis J, *Economic efficiency, Encyclopedia of Public Administration and Public Policy*, (2nd Ed, CRC Press, Florida, 2007) p. 614.

⁹⁵ M.J. Farrell, (1957), *Supra*, p. 253.

best production or service delivery processes and they are exploiting all potential economies of scale and minimizing the wastage of resources in service delivery⁹⁶.

In the context of KRA, the resource input would include tangible resources consisting of managers and staff, annual budgetary allocations, information communication and technology (ICT) systems, infrastructure including buildings, vehicles, office equipment, communication systems, weigh-bridges, X-ray machines, chemical laboratories and storage facilities. On the other hand, intangible resources would include the legal authority granted to [KRA] for the administration of tax laws; the perception of taxpayers and the public about the fairness, transparency, integrity and enforcement capacity of [KRA], the honesty, morale and the commitment of its employees⁹⁷. The output would include revenue collection and compliance with the laws that KRA is responsible for enforcing.

To promote productive efficiency, Kenya currently has a revenue authority model which consists of an administratively integrated customs and tax administration. The potential benefits of combining tax and customs administrations include economies of scale in infrastructure and ICT systems; improved information exchange between tax and customs activities; and improved taxpayer monitoring⁹⁸.

However, there is a possibility of eroding the gains made in productive efficiency in a revenue authority model since the customs functions relating to trade facilitation and anti-counterfeiting are different from the tax administration function and require maintenance of specialized skills within the merged revenue authority. Further, there is a tendency for more of the authority's resources to be channelled to the revenue collection function of customs as opposed to the other functions that customs is tasked with.

There are currently plans to split KRA into two semi autonomous entities which shall consist of the Domestic or Inland Tax Agency and the Customs and Border Control Agency. This split aims at improving revenue collection and border security⁹⁹. However, without any deliberate action to form a specialised anti-counterfeiting unit

⁹⁶ IESO, *Economic concepts of efficiency*, p. 2 Available at <http://www.ieso.ca> (accessed on 5 October 2012).

⁹⁷ Jit B. S. Gill, *The nuts and bolts of revenue administration reform*, p. 6 available at <http://siteresources.worldbank.org> (accessed on 5 October 2012).

⁹⁸ *Ibid*, p. 10.

⁹⁹ See Mugwe D, KRA to split into two entities, *Business Daily Africa* 23 October 2013. Available at <http://www.businessdailyafrica.com> (accessed on 29 October 2013).

within the customs and border control, this move to split KRA into the two entities will not facilitate the efficient enforcement of IPRs through customs since the priority of the Customs and Border Control Agency shall still be revenue collection.

The perception of equity, fairness and certainty in a tax system among taxpayers is an important element to enhance self assessment and voluntary compliance. This ultimately translates into productive efficiency as a revenue authority will spend fewer resources on enforcement and debt collection costs whilst recording higher compliance rates. The resource savings made can then be channelled towards other non revenue collection functions of the revenue authority like IPR enforcement.

2.2.1.2 Allocative efficiency

Allocative efficiency refers to the efficient distribution of resources among alternative uses so as to produce the optimal mix of output. A market will be allocatively efficient if output is produced by the lowest cost producers¹⁰⁰. For example, there is no allocative efficiency when more of customs resources are directed towards the revenue collection function to the detriment of the other functions of customs like IPR enforcement.

For KRA, allocative efficiency would be achieved when all the departments of both the tax and customs departments are apportioned adequate resources to enable them perform their functions. Section 11 (2) of the Kenya Revenue Authority Act¹⁰¹ vests the responsibility of the management of KRA's funds in the Commissioner General who is mandated to provide estimates of income and expenditure for each financial year to the board for approval¹⁰². The funds available to KRA include two per cent or less of the actual amount collected in respect of a particular period,¹⁰³ loans and grants received by the Authority with the approval of the Cabinet Secretary in charge of finance, and any other monies that may be received with the approval of the Cabinet Secretary for the purpose of performing its functions¹⁰⁴.

Further, the Commissioner General is also responsible for the overall day to day running of KRA and the administration, organization and control of the staff of the

¹⁰⁰ Dollery B & Wallis J ' *The Political Economy of Local Government*', (Edward Elgar Publishing, Massachusetts, 2001) p. 77.

¹⁰¹ Chapter 469, Laws of Kenya.

¹⁰² *Ibid*, section 17.

¹⁰³ *Ibid*, section 16 (1) (a).

¹⁰⁴ *Ibid*, section 16 (1) (c) (d).

Authority¹⁰⁵. In terms of enforcement of IPRs at the border, allocative efficiency by KRA is enhanced when only the customs officials are tasked with IPR enforcement at the borders as opposed to any other agents¹⁰⁶ since they are best equipped with border enforcement infrastructure and therefore would be the 'lowest cost producers'¹⁰⁷.

2.2.1.3 Dynamic efficiency

Time is the central difference between allocative and dynamic efficiency. Allocative efficiency deals with the most efficient use of resources at a given point in time. Dynamic efficiency on the other hand deals with the evolution of a more efficient mix of resources for the market over time¹⁰⁸. According to Schumpeter, dynamic efficiency requires that proper incentives exist to make long-term decisions, such as those about investment and the introduction of new products and services. Dynamic efficiency also requires that the effects of decisions in one period be taken into account for future periods¹⁰⁹.

One way in which KRA strives to promote dynamic efficiency is through its corporate plan papers which it formulates every three years¹¹⁰. The corporate plan includes KRA's strategy to achieve its mandate and the budget and resource allocation for this. It also includes a review of how it implemented its previous corporate plan and the lessons carried forward to the current corporate plan.

2.3 Organisational theory

2.3.1 Classical organisational theory

The interest in the study of organisations was stimulated by the industrial revolution of which mass production was first studied and popularized by Adam Smith. Smith

¹⁰⁵ *Ibid*, section 11 (2).

¹⁰⁶ The Kenya Anti counterfeit Agency is underfunded and does not have enough agents to effectively deal with counterfeiting complaints. This position was confirmed in a meeting held between members of the Kenya association of manufacturers and officials from the anti-counterfeit agency on 25th April 2013.

¹⁰⁷ Other inspectors under the Anti-counterfeit Act, (*supra* note 33, section 22 (3) include police officers, trade development officers, industrial development officers, trade mark and patent examiners, seed and plant inspectors, and public health inspectors.

¹⁰⁸ IESO, *Supra*, p. 2.

¹⁰⁹ M.J. Farrell, (1957), *Supra*, p. 253.

¹¹⁰ KRA, 2012, *Supra*.

studied factories and came up with the concept of a division of labor as originally explained in the Wealth of Nations¹¹¹.

The division of labour is made up of four components; firstly, the hierarchy of authority; secondly, the span of control; thirdly centralization versus decentralization and finally, specialization of function or task¹¹². Smith's concept of division of labor later formed the conceptual basis for the administrative approach to reducing cost, increasing productivity, and maximizing profits¹¹³.

Other classical organisational theorists who built on Smith's concept of division of labour include Marx Weber who conceived the bureaucratic approach to management¹¹⁴ and Henry Fayol who is credited with the administrative theory of management¹¹⁵.

The classical theory is based on the following three assumptions; firstly, the relationship between employees and management is defined by means of formal structured communication process, defined tasks, defined accountability, and formalized procedures and practices to avoid any conflict in their relationship; Secondly, workers are to be treated as economic men who can be motivated by means of money and thirdly, workers are considered as a product of means of production or as a cog in the wheel¹¹⁶.

These assumptions have led to the criticism of the classical approach for its inflexibility, lack of democracy, its impersonal nature as workers are viewed as a means to an end, the problem of self-perpetuation and empire building to maintain the status quo in the pecking order and the high cost of controls¹¹⁷.

In the context of present day organisations like KRA, the classical organisational theory is limiting since KRA operates in a dynamic environment of which inflexibility

¹¹¹ Smith A, An inquiry into the nature and causes of wealth of nations, edited by C. J. Bullock. Vol. X. The Harvard Classics. New York: P.F. Collier & Son. Available at <http://www.econlib.org> (accessed on 5 October 2012).

¹¹² Smith A, 1909–14, *Supra*.

¹¹³ Docherty J & Surles R et al, *Organizational theory*, p. 34 available at <http://www.cumc.columbia.edu> (accessed on 5 October 2012).

¹¹⁴ Alajloni M & Almashaqba Z et al, *The classical theory of organisation and its relevance*, International Research Journal of Finance and Economics, Issue 41 (2010) p. 61 available at <http://www.eurojournals.com> (accessed on 5 October 2012).

¹¹⁵ *Ibid*, p. 62.

¹¹⁶ *Ibid* p. 60-61.

¹¹⁷ Hicks G & Gullet R et al,(1975), p. 251.

would hinder the adoption of change which is necessary in any reform effort. This thesis shall therefore not use the classical organisational theory.

2.3.2 Modern organisational theory

According to Herbert Hicks and Ray Gullet¹¹⁸, an organisation is a designed and structured process in which individuals interact to achieve. The modern approach to the organisation is collaborative, multidisciplinary and emphasizes the dynamic nature of communication and importance of integration of an individual and organisation's interests¹¹⁹. The central theme in modern organisational theory is that since organisations operate in a dynamic environment, change has to be constantly adopted to suit the changes in the environments they operate in¹²⁰.

Modern organisational theory is relevant in introducing reforms and modernization of a customs administration since the administrations continue to face changes to their operating environment which emphasize the need to adjust and modernize their processes accordingly. These changes include more sophisticated and demanding clients, greater policy and procedural requirements associated with international commitments, the proliferation of regional and bilateral trade agreements which significantly increase the complexity of administering border formalities and controls and heightened security concerns and demands to respond to the threats posed by international terrorism and transnational organized crime including counterfeiting¹²¹.

Modern organisational theory shall be useful in this paper in the context of legislative reforms. For example, KRA recognizes that it faces challenges that inhibit the achievement of a fully integrated and modern tax administration system¹²². Consequently it has set up a Revenue Administration Reform and Modernization Programme (RARMP) to ensure that it maintains the reforms momentum to keep up with the dynamic changes in the environment it operates in. Despite its reforms efforts, KRA notes that it still faces challenges due to inadequate

¹¹⁸ *Ibid.*

¹¹⁹ *Ibid.*

¹²⁰ *Ibid.*

¹²¹ WCO, *Customs Capacity Building Strategy*, p. 2 available at <http://www.wcoomd.org> (accessed on 4 October 2012).

¹²² See KRA, *about the revenue administration reform and modernization programme*, available at <http://www.kra.go.ke> (accessed on 5 October 2012).

funding and resources to effectively meet the objectives of RARMP, inadequate skills and timeliness of legislative changes among others¹²³.

To address the challenge of inadequate funding and resources, the WCO recommends the use of risk management techniques as an essential tool for customs administrations to effectively and efficiently perform their diverse responsibilities associated with revenue collection, trade policy implementation, community protection and trade facilitation¹²⁴.

KRA recognizes the need for risk management to mitigate the problem of inadequate funding and resources. Consequently it has an approved risk management policy and framework which it intends to implement during the current fifth plan period by developing risk management organizational structures and automation of the risk management process¹²⁵.

2.4 Customs risk management

The risk management process comprises a six step approach which involves establishment of the risk management context, risk identification, risk analysis, risk assessment, addressing the risks and monitoring and reviewing the process through compliance measurement¹²⁶. These shall be briefly discussed below with regard to the enforcement of IPRs by customs.

2.4.1 Establishing the context

This stage defines the strategic, organisational, and risk management context, because any effort to manage customs or other risk must first establish what needs to be managed. For example, is it general arrival processes, specific border transactions, or internal processes?¹²⁷

¹²³ *Ibid.*

¹²⁴ Widdowson D, *Intervention by exception, a study of the use of risk management by customs authorities in the international trading environment*, a thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy at the University of Canberra September 2003, p. 19 available at <http://customscentre.canberra.edu.au> (accessed on 3 October 2012)

¹²⁵ KRA, (2012), *Supra* p. 112.

¹²⁶ WCO, (2003), *Supra*, p. 10.

¹²⁷ See Foley R & Northway B, *Managing risks in customs lessons from the New Zealand Customs Service*, Investment climate in practice, Vol. No. 12, April 2012 p. 3 Available at <https://www.wbginvestmentclimate.org> (accessed on 2 October 2012).

Risk management within customs can be strategic, operational or tactical. It should be remembered that the risk management process can apply across all of these levels¹²⁸.

2.4.1.1 Strategic risk management

Strategic risk management deals with strategic risks which are the high level, 'whole of the customs agency' risks articulated in a custom's annual plan and annual risk plan, as well as the government's broader strategic border management plan¹²⁹. Strategic customs risk management in line with a national IP policy would involve measures in IPR enforcement by customs.

2.4.1.2 Operational risk management

Operational risk management is the determination of the level of control necessary to deal effectively with the assessed risk. An example of this is determining the audit controls applied to an importer or how to deploy limited staff and equipment effectively. Using this approach customs moves from being a "gatekeeper" checking every movement, to checking only selected movements which demonstrate the greatest risk¹³⁰.

2.4.1.3 Tactical risk management

This is used by customs officers at their workplace in dealing with situations that need immediate intervention using set procedures combined with intelligence, experience and skill to decide which movements require greater controls¹³¹. Tactical risk management in IPR enforcement is relevant where customs is involved in ex-officio detention of infringing goods.

A customs recordation system is used as a tool in *ex officio* action as it enables customs to obtain as much information as possible in advance and prior to the arrival of goods to make timely and effective risk-based decisions¹³². A typical customs recordation system would require a right holder to provide copies of the registration

¹²⁸ WCO, (2003) *Supra*, p. 2.

¹²⁹ Australian Customs and Border Protection Services, *Risk Management in the Processing of Sea and Air Cargo Imports* Available at <http://www.anao.gov.au> (accessed on 3 October 2012).

¹³⁰ WCO, (2003) *Supra*, p. 10.

¹³¹ *Ibid.*

¹³² Gordhan P, *Customs in the 21st Century*, World Customs Journal, Volume 1, Number 1, 2007, p. 51, available at <http://customscentre.canberra.edu.au> (accessed on 12 July 2012).

certificates for the IPRs, images of the goods including logos in the case of trademarks together with their full contact details and local agent details in the case of foreign IPR holders.

2.4.2 Identifying risks

This stage uses a systematic process to identify what, why, and how risks could arise to form the basis for further analysis¹³³. In the context of identifying risks in IPR enforcement by customs, this would include identifying sectors of the economy that are attractive to counterfeiters. For example, a study commissioned by the KAM identified luxury goods, automobile spare parts, pharmaceuticals, FMCG as goods that are likely to be counterfeited¹³⁴ and that the goods mainly originate from Far East countries, China being the main source of counterfeits into Kenya¹³⁵. Such information would be useful to customs as more resources would be channelled towards the inspection of goods that fit such a profile. In terms of controls to detect such risks, a customs recordation system would enable customs to detect goods that infringe IPRs.

2.4.3 Analysing risks

Risk analysis involves determining controls and evaluating risks in terms of likelihood and consequence. The risks may be proven or potential risks. In terms of IPR enforcement, a proven risk would be an infringement that has occurred and customs has a record of the incident and the facts surrounding the case. Lists of these risks can be analyzed against current data to see if conditions surrounding the risk currently exist. On the other hand, potential risks are risks that have not yet been uncovered but are suspected. For example the development of a new commodity to which the owner assigns their trade mark may become the target of others wishing to breach the holder's IPR¹³⁶.

¹³³ WCO, (2003), *Supra*, p. 10.

¹³⁴ See KAM, *The study to determine severity of the counterfeit problem in Kenya as it affects industries and impact of proliferation of counterfeit products from other EAC partner states and Far East countries into the Kenyan market*, (Nairobi, 2012) at p. 7.

¹³⁵ *Ibid*, p. 29.

¹³⁶ See EU, *Risk management for customs in the EU*, available at <http://ec.europa.eu> (accessed on 1 October 2012).

2.4.4 Assessing and prioritising risks

Risk assessment and prioritization is done by comparing estimated levels of risk against the pre-established criteria and to rank the risks to identify custom's priorities. Customs in Kenya uses the following risk ranking system; High risk consignments are assigned the colour red and for which a detailed document verification and scanning is done followed by a mandatory physical inspection.

Medium risk consignments are assigned the colour yellow of which more documentary evidence is required and cargo scanning; Low risk consignments are assigned the colour green of which they are directly released without scanning. There is a final category of Authorized Economic Operators (AEO) who are assigned the colour blue and are subject to post-clearance audits. The risks must be continually monitored for any change in their nature, level or significance¹³⁷.

It should be noted that *de minimis* imports are excluded from inspection which assists customs in operational risk management and to deploy its resources more effectively.

2.4.5 Addressing and treating risks

Once it has been identified that a customs control needs to be carried out, a decision must be made as to how to carry out the control. This would include outlining the methods and moments of control. It identifies controls to be carried out at the moment of entry and exit of the customs territory / customs supervision, controls at the moment of assignment of goods for customs approved treatment or use and controls after customs approved treatment. The type of controls that customs carry out to address the risk range from customs supervision to documentary controls, physical controls, and audit based controls. It also describes the control areas requiring attention, including controls by customs to protect public health and safety concerns from goods infringing IPRs¹³⁸.

¹³⁷ KRA, *Customs Services Departmental Instructions*, 2009 at p. 458 available at www.revenue.go.ke (accessed on 4 October 2012).

¹³⁸ European Commission, Taxation & Customs Union, *Risk Management for Customs in the EU*, Available at <http://ec.europa.eu> (accessed on 4 October 2012).

2.4.6 Monitoring and reviewing risk management - compliance measurement

To remain effective, a customs risk management system has to test the assessment of previously identified risks and be flexible enough to reflect newly identified risks. Evaluation of the effectiveness of risk management should be undertaken regularly at all stages through a regular compliance measurement process. Risk profiles should also be reviewed at regular intervals in order to ensure that they are always up to date, and to rid the system of information that is no longer relevant¹³⁹.

2.5 Conclusion

This chapter has highlighted how economic efficiency theories can be applied to a revenue authority which lacks adequate resources to enhance its performance and promote economies of scale whilst keeping up with the changes in the environment it operates in as per the modern organizational theory.

This chapter has also highlighted customs risk management in the context of modern organizational theory and how a customs administration can generate numerous benefits by adopting risk management including targeted IPR enforcement and efficiency of processes and use of resources.

¹³⁹ WCO, (2003), *Supra*, p. 10.

CHAPTER THREE

THE INSTITUTIONAL AND LEGISLATIVE FRAMEWORK GOVERNING IPR ENFORCEMENT BY CUSTOMS IN KENYA

3.1 Introduction

Chapter two has established the applicability of economic efficiency to a revenue authority that is faced with scarce resources and inadequate resource allocation to the IPR enforcement function of customs. The chapter has also discussed how customs can adapt to changes in its operating environment by adopting customs risk management in the enforcement of IPRs.

This chapter examines the institutional and legislative framework governing the enforcement of IPRs through customs in Kenya including the Constitution of Kenya¹⁴⁰, the East African Community Customs Management Act (EACCMA) and the Anti Counterfeit Act¹⁴¹ through the lens of economic efficiency and customs risk management as it seeks to determine whether the current legislative and institutional framework in Kenya enables customs to efficiently and effectively enforce IPRs in compliance with TRIPs.

3.2 The Institutional framework governing IPRs enforcement by customs

The Kenya Revenue Authority (KRA) is divided into five revenue and support departments¹⁴² and seven service departments¹⁴³ whose role is to enhance KRA's operational efficiency¹⁴³. The Commissioner General who is the chief executive officer of KRA is empowered by law to determine the organisational structure of KRA¹⁴⁴. KRA's fifth corporate plan details how various departments shall be restructured in order to promote efficiency. However, the Customs services

¹⁴⁰ The Constitution of Kenya 2010.

¹⁴¹ Act No 13 of 2008, Laws of Kenya.

¹⁴² Customs Services Department, Domestic Taxes Department (Domestic Revenue and Large Taxpayers Office), Road Transport Department, Support Services Department and the Investigations and Enforcement Department.

¹⁴³ Human Resources Department, Finance Department, Board Corporate Services & Administration Department, Internal Audit Department, Information & Communication Technology Department, Research and Corporate Planning Department and the Marketing & Communication. See <http://www.revenue.go.ke> (accessed on 25 July 2013).

¹⁴⁴ Chapter 469, Laws of Kenya, *Supra*, section 11 (2) (C).

department is not affected by the restructuring. A commissioner in charge of Customs Services assists the Commissioner general in taking charge of the day to day running of the department.

The customs services department is the largest of the revenue departments in terms of manpower and is tasked with collecting and accounting for import duty and value added tax (VAT) on imports and also preventing the entry of illegal and prohibited goods into the country including counterfeit goods¹⁴⁵.

Customs is faced with number a challenges in effecting its duties. As previously indicated, the Kenya Revenue Authority Act limits the funds available to KRA's operational activities to not more than two percent of the actual amount collected in a particular period¹⁴⁶. Additional development funds may also be available to KRA upon approval by the Ministry of Finance¹⁴⁷. However, these amounts are not adequate¹⁴⁸ and have a negative impact on the operations of KRA as reflected in staff shortages, lack of adequate training of staff and lack of procurement and maintenance of information communication and telecommunications (ICT) systems which hampers the enforcement of IPRs as shall be discussed below.

According to the current corporate plan the customs department is currently faced with a staff shortage of five hundred and thirty employees which has affected overall service delivery and the implementation of a twenty four hour system operation as was intended in the 2011-2012 financial year¹⁴⁹. Further, there is inadequate training of staff in the relevant technical areas, for example, customs officials are not trained to identify counterfeit goods and therefore they only detain goods which are deemed to be blatantly counterfeit¹⁵⁰.

It is noteworthy that underfunding of KRA has led to the delay in establishing an anti-counterfeit unit and the acquisition and use of anti counterfeit and anti smuggling

¹⁴⁵ See KRA, about customs, available at <http://www.revenue.go.ke>(accessed on 26 July 2013).

¹⁴⁶ Chapter 469, Laws of Kenya, *supra*, section 16 (1).

¹⁴⁷ KRA, *Fifth Corporate Plan (2012)*, *Supra*, p. 113.

¹⁴⁸ of which for example, in the 2011-2012 financial year KRA was underfunded by four point one six three billion Kenya shilling. See KRA, *Fifth Corporate Plan 2012/2013-2014/2015*,(Nairobi,2012), table 2.3 resource projections against actual provisions values in KES. min p. 22. Available at <http://www.kra.go.ke> (accessed on 1 October 2012).

¹⁴⁹ *Ibid.*

¹⁵⁰ Interview with Mr F. Ndenga who is a customs revenue officer attached to the enforcement department at the port in Mombasa of which he gave the example of obvious counterfeits an imported shipment of Mumias sugar since the sugar is only produced in Kenya.

technical solutions as part of KRA's reform effort¹⁵¹. In the absence of an anti-counterfeit unit within the investigation and enforcement department, the business intelligence unit within the same department currently plays an incidental role in the enforcement of IPR's since its main function is to identify and deter tax fraud¹⁵².

In terms of ICT systems, KRA has recognised that its current levels of ICT funding are inadequate to support the current operational needs of automated support¹⁵³. The benefits of automated support include strengthening customs operational efficiency and collecting timely and accurate statistical data for use in fiscal and trade policy objectives¹⁵⁴. A customs IPR recordation system as part of customs automation would facilitate ex-officio action by enabling customs to identify counterfeits and efficiently enforce IPRs through access to a centralised database of registered IPRs.

Another challenge in the enforcement of IPR's is the over focus on revenue collection which is considered the primary role of customs to the detriment of its other roles like IPR enforcement. For example, KRA publishes a revenue report for each quarter detailing the performance of each of the revenue departments against set targets and the percentage growth from the previous fiscal year¹⁵⁵. KRA has yet to prepare and publish a report that covers its IPR enforcement function, for example, an analysis of the illegal and prohibited goods detained by customs unlike a jurisdiction like the EU which is mandated by law¹⁵⁶ to publish a report each financial year detailing the number of counterfeit goods detained by customs, the types of goods, country of origin, comparative trends with the previous financial year and proposed remedial measures to deal with the effective enforcement of IPRs by customs¹⁵⁷. The benefits accrued from such statistical information would be to

¹⁵¹ See KRA, Investigation and Enforcement Reform and Modernization available at <http://www.kra.go.ke> (accessed on 12 October 2012).

¹⁵² See KRA, enhancement of prosecution capacity, ' Available at <http://www.kra.go.ke> (accessed on 6 March 2013). The Investigation and Enforcement's department's mandate is to enhance revenue collection by KRA through investigation of all detected cases of tax fraud/evasion and apply all the enforcement measures at the disposal of the respective tax legislation.

¹⁵³ KRA, Fifth Corporate plan, *Supra*, p. 70, There is a proposal to raise the ICT non-wage recurrent budget to between 8% and 10% of KRA's total operational budget in line with international best practices and in order to raise performance standards and reduce operational costs.

¹⁵⁴ see UNCTAD, Trust Fund for Trade Facilitation Negotiations Technical Note No. 2, January 2008, Available at <http://r0.unctad.org> (accessed on February 23, 2013).

¹⁵⁵ See generally KRA, *Fourth Quarter report 2011-2012*, available at <http://www.kra.go.ke> (accessed on 13 October 2012).

¹⁵⁶ See Commission Regulation No 1891/2004, OJ L 328, 30.10.2004, p. 16. Available at <http://ec.europa.eu> (accessed on 22nd February 2013).

¹⁵⁷ See for example EU, report on EU customs enforcement of intellectual property rights results at the EU border -2010, available at <http://ec.europa.eu> (accessed on 16 September 2012).

enable customs to quantify patterns of IPR infringement and to introduce the appropriate risk analysis measures¹⁵⁸ which would assist customs in the efficient and effective enforcement of IPRs.

In light of the over focus on revenue collection, performance appraisals on customs officers are based on the revenue they have collected and there is no incentive or recognition given to customs officers for detaining counterfeit goods¹⁵⁹. Consequently there are instances where custom duties are collected on counterfeit goods which are then released for circulation¹⁶⁰.

It is noteworthy that KRA recognises that in order to efficiently and effectively perform its functions even with scarce resources, there will be a need to develop a dynamic risk management system of which risk targeting shall be done at the higher end of the risk spectrum¹⁶¹. In this regard KRA plans to develop, implement and integrate a dynamic risk management system with all relevant KRA systems¹⁶².

From the foregoing analysis, it can be deduced that KRA's current institutional framework does not enable customs to efficiently and effectively enforce IPRs at the border. There is therefore a need to address the institutional deficiencies in order to ensure that customs is equipped to be able to efficiently and effectively enforce IPRs.

3.3 The legislative framework governing IPR enforcement by customs in Kenya

3.3.1 The Constitution of Kenya

A Constitution by its very nature should be more than a mere set of rules and laws regulating society and government. It is more than a social contract or even the *grundnorm*. It is rather an expression of the general will of a nation. It is a reflection of its history, fears, concerns, aspirations, vision, and indeed, the soul of that nation¹⁶³.

¹⁵⁸ OJ L 328, 30.10.2004, *Supra*, p. 16.

¹⁵⁹ Interview with Mr F. Ndenga.

¹⁶⁰ Interview with Mr. Silvester Ogello who is a prosecutor and officer attached to the Investigations and Enforcement department at KRA.

¹⁶¹ KRA, *Fifth Corporate Plan (2012)*, *Supra* p. 63.

¹⁶² *Ibid.*

¹⁶³ Commonwealth Human Rights Initiative, *Promoting a Culture of Constitutionalism and Democracy in Commonwealth Africa*, p. 8 available at <http://www.humanrightsinitiative.org> (accessed on 27 July 2012).

The Constitution of Kenya is the supreme law of the Republic and binds all persons and all State organs at both levels of government¹⁶⁴. It prescribes that all laws which are inconsistent with it are void to the extent of the inconsistency and any act or omission in contravention of the Constitution is invalid¹⁶⁵.

The Constitution lays the foundation and principles for the enforcement of IPRs by customs as shall be set out below. Firstly, the constitution recognises IP as a form of property. Article 260 which covers the interpretation of the Constitution defines property to include any vested or contingent right to, or interest in or arising from intellectual property. Secondly, under the Bill of Rights and specifically the protection of the right to property, the constitution stipulates that the state shall support, promote and protect the intellectual property rights of the people of Kenya¹⁶⁶.

Further, article 2 (6) provides that any treaty or convention ratified by Kenya shall form part of the laws of Kenya under the constitution. Kenya has ratified The Paris Convention for the Protection of Industrial Property¹⁶⁷ and TRIPs which contain provisions for the enforcement of IPRs and particularly section 4 of part III of TRIPs which contains detailed provisions on border measures which are relevant for the enforcement of IPRs by customs.

The enforcement of IPRs by customs in its very nature may be deemed to be an administrative action¹⁶⁸. The Constitution in this regard therefore provides for the right to fair administrative action¹⁶⁹ that is expeditious, efficient, lawful, reasonable and procedurally fair¹⁷⁰. It is also worth noting that the Constitution advocates for the efficient, effective and economic use of resources as part of the values and principles of the public service¹⁷¹.

¹⁶⁴ The Constitution of Kenya, *Supra*, article 2 (1).

¹⁶⁵ *Ibid*, article 2 (4).

¹⁶⁶ *Ibid*, article 40(5).

¹⁶⁷ *Paris Convention for the protection of industrial property*, March 20, 1883, Paris TS 379 25 Stat. 1372 II Malloy 19351 Bevans 80.

¹⁶⁸ See L, J Kotze, *The application of just administrative action in the South African environmental governance sphere: an analysis of some contemporary thoughts and recent jurisprudence*, quoting Hoexter and Lyster, *Constitutional and Administrative Law*, (2nd ed, Juta, 2001) of which administration law may be described as that branch of public law that regulates the activities of bodies that exercise public powers or perform public functions, irrespective of whether those bodies are public authorities in a strict sense. Available at <http://www.ajol.info> (accessed on 15 September 2012).

¹⁶⁹ The Constitution of Kenya, *Supra*, article 47 (1).

¹⁷⁰ *Ibid*, article 47 (1).

¹⁷¹ *Ibid*, article 232 (1) (b).

3.3.2 The East African Community Customs Management Act

The EACCMA is an Act of the EAC¹⁷² to make provisions for the management and administration of customs and for related matters. The EACCMA takes precedence over the existing member country customs legislation. However, where the Act does not cover a member country's customs provisions, such a country's legislation remains in force until such time that the Act shall address the matters¹⁷³. In Kenya, the Customs and Excise Act is still applicable in so far as domestic excise legislation is concerned.

It is envisaged that the EACCMA shall promote coordinated border management (CBM)¹⁷⁴. The importance of CBM includes effective delivery of services at borders, increased savings through economies of scale occurring from common use of ICT systems, cross training and pooling of resources, development of a single window where transactions are done at the first point of entry, increased efficiency, improved security, and ease of information sharing across borders¹⁷⁵.

In terms of enforcement of IPR's through customs, the EACCMA lists counterfeit goods of all kinds as prohibited goods¹⁷⁶ which are subject to forfeiture upon importation into the member states. Section 200 (a) (1) particularly makes it an offence for a person to import or carry coastwise any prohibited goods. However, counterfeit goods feature amongst a list of over fifty other types of prohibited and restricted goods and therefore without a special customs anti-counterfeit unit, it is daunting for customs to pick out counterfeit goods and to effectively enforce IPRs at the border.

With regard to empowering customs officials to detain infringing goods, the EACCMA solely makes provisions for ex-officio action as there are no provisions that enable an IPR holder to make an application for the seizure of counterfeit goods. Further, the Act does not make provision for a customs recordation system which in light of customs priority to collect revenue, limits the capacity of customs officials to exercise ex-officio action to detain infringing goods since the customs officials do not have the

¹⁷² The East African Community (EAC) Established by the EAC Treaty ratified on 7 July 2001.

¹⁷³ See Deloitte, *A common game: 'Customs & Excise'*, 2011 available at <http://www.deloitte.com> (accessed on 27 July 2012)

¹⁷⁴ EACCMA, section 4 (1).

¹⁷⁵ KRA, *Fifth Corporate Plan (2012)*, *Supra* p. 28.

¹⁷⁶ EACCMA, See the second schedule. Counterfeit goods were added through an amendment in L.N. EAC/13/2008 dated 30/6/2008.

required information to cross check and detect infringing goods¹⁷⁷. It is noteworthy that the directorate of customs in the EAC is charged with the responsibility of coordinating and monitoring the application and interfacing of ICT systems in the customs administrations in the region and therefore would be charged with implementing the customs recordation system¹⁷⁸.

The EAC policy on counterfeiting notes that the provisions in the EACCMA are not sufficient to deal with IPR enforcement¹⁷⁹. The policy recommends that in the absence of an EAC anti-counterfeit Act, each partner state should formulate its own laws on IPR enforcement. To this end, Kenya has enacted an Anti-counterfeit Act.

3.3.3 The Anti-Counterfeit Act

The Anti-counterfeit Act is an act of parliament to prohibit trade in counterfeit goods to establish the anti-counterfeit agency (the agency), and for connected purposes. It contains the most comprehensive provisions on the enforcement of IPRs through customs in Kenya as compared with the EACCMA.

For purposes of enforcing the provisions of the act, authorized customs officers have been designated as inspectors under the Act¹⁸⁰. The powers of the inspectors under the Act include the power to seize, detain, and where applicable, remove for detention, all goods reasonably suspected to be counterfeit goods¹⁸¹. It is noteworthy that one of the two branches of the agency is housed at the KRA office in Mombasa which assists in coordination with customs officials to detain infringing counterfeit goods¹⁸².

The Act allows any holder of an IPR¹⁸³ to make an application to either the executive director of the agency or the commissioner of customs in the prescribed

¹⁷⁷ For example the USA customs and border protection officers monitor imports to prevent the importation of goods bearing infringing marks by accessing an IPR recordation database at each of the 317 ports of entry.

¹⁷⁸ EACCMA, *Supra*, section 4 (1) (f).

¹⁷⁹ EAC, *The East African Community policy on anti-counterfeiting*, 2011 p. 14.

¹⁸⁰ Act No. 13 of 2008, *Supra*, section 21 (2).

¹⁸¹ *Ibid*, section 23 (3)- These powers only extend to the detention of counterfeit goods which are the subject of trade mark and copyright protection which is the bare minimum stipulated in Article 51 of TRIPs.

¹⁸² Interview with Mr. Francis Kamau who is a senior inspector at the Kenya Anti-Counterfeit Agency.

¹⁸³ It is understood that under the generally accepted legal principles, such as the law of agency the term right holder should also include an individual, corporation or association representing a right holder, and therefore such natural or legal person may also submit applications to customs requesting enforcement actions. – see WCO, *Model Provisions for National Legislation to Implement Fair and Effective Border Measures Consistent with the Agreement on Trade-Related Aspects of Intellectual Property Rights*, Available at <http://www.wcoipr.org> (accessed on 24 March 2012).

manner to seize and detain all suspected counterfeit goods if they have valid grounds for suspecting that the importation of counterfeit goods may take place¹⁸⁴. This provision enables the assessment and prioritisation of risks when screening imported goods since customs shall be on the lookout for goods that match the description in the application. However, the Act does not make it compulsory for applications be made in an electronic format which is contrary to KRA's strategy to improve efficiency and effectiveness by moving towards a paperless system of operations¹⁸⁵.

As a way of deterring false and negligent applications and those made in bad faith, section 34 (7) of the Act entitles any person who suffers damage or loss caused by wrongful seizure, removal or detention of goods alleged to be counterfeit goods to claim compensation for the loss suffered by him against the applicant. This deterrent provision promotes efficiency since customs' resources are not unnecessarily utilized pursuing fraudulent applications.

The Act empowers customs officials to obtain information from any suspect upon detention of goods which may be relevant to the nature, quantity, location, source, destination, supplier, manufacturer, distributor, importer or exporter of the goods in question¹⁸⁶. This provision enables customs officials to use the information obtained for risk profiling, assessment and prioritisation which promotes productive efficiency by enabling customs to single out and inspect future consignments that match the particulars obtained.

To assist the relevant authorities in *ex officio* action, an IPR holder may submit particulars of the IPR to the agency in a prescribed format¹⁸⁷. The recordation system as a risk management tool assists in the effective and informed monitoring and seizure of infringing imported goods. As part of the agency's strategy, this database should be accessible and linked to the customs database¹⁸⁸. However this is yet to

¹⁸⁴ Act No. 13 of 2008, *Supra*, section 34. This is also in line with Article 52 of TRIPs.

¹⁸⁵ KRA, *Fifth Corporate Plan (2012)*, *Supra*, p 5.

¹⁸⁶ Act No. 13 of 2008, *Supra*, Section 23 (1) (e). This provision is in compliance with article 57 of TRIPs.

¹⁸⁷ *Ibid*, regulation 15 (1) of the Anti-Counterfeit regulations of which the submission of the particulars must be accompanied by a certified copy of the certificate of registration of the IPR or information which furnishes evidence concerning authorship or creation.

¹⁸⁸ See The Anti-counterfeit agency, *strategic plan 2010-2015*, p. 35 available at <http://www.aca.go.ke> (accessed on 12 October 2012).

happen as the anti-counterfeit agency has not yet began accepting submissions for these particulars due to logistical and budgetary reasons¹⁸⁹.

The Act excludes from seizure small quantities of goods to the extent that they are used for domestic and personal use¹⁹⁰. It should be noted that small consignments destined for trade are not excluded from seizure under the act¹⁹¹ which is useful to counter infringers who may import regular but small consignments of infringing goods for purposes of trade. This provision promotes the efficient use and allocation of customs' resources since it does not oblige customs officials to inspect every imported good that comes within customs control.

3.4 Conclusion

The foregoing discussion has highlighted the shortcomings in the institutional and legislative framework governing the enforcement of IPRs through customs in Kenya. There is therefore a need to address these deficiencies in order to promote the efficient and effective enforcement of IPRs by customs. An issue that also emerges from the discussion is the duplication of roles between the agency and customs since the agency's agents and custom officials who are inspectors under the Anti-counterfeit Act are both tasked with the enforcement of IPRs at the border. This scenario if not properly managed would on one hand encourage turf wars and promote productive and allocative inefficiencies due to the additional administrative costs involved because of the duplication of roles, however the agency and customs can come up with strategies to collaborate and share resources on IPR enforcement.

¹⁸⁹ This information was obtained from an interview with Mr. Kamau who works at the Anti-counterfeit agency. This position was also confirmed in a meeting held between members of the Kenya association of manufacturers and officials from the anti-counterfeit agency on 25th April 2013.

¹⁹⁰ Supra TRIPS, section 32, article 60 of TRIPs allows for the exclusion of small quantities of goods of a non-commercial nature contained in travellers' personal luggage or sent in small consignments from seizure by customs officials.

¹⁹¹ *Ibid.*

CHAPTER FOUR

EFFECTIVE BORDER ENFORCEMENT OF IPRS IN A CUSTOMS UNION: A COMPARATIVE STUDY OF THE EUROPEAN UNION AND THE EAST AFRICAN COMMUNITY CUSTOMS UNION

4.1 Introduction

Chapter three has analysed Kenya's institutional and legislative framework governing the enforcement of IPRs through customs whilst highlighting the shortcomings of the same. One issue that emerges is that the EACCMA, which governs among others the treatment of imported and exported goods into the EAC customs union, lacks substantive provisions for the enforcement of IPRs through customs.

This chapter provides a comparative study of the European Union's (EU) approach to enforcement of IPRs through customs and also highlight the proposed role of customs in IPR enforcement under the draft EAC Anti-counterfeit Bill 2011. The chapter shall also highlight the lessons the East African Community Customs Union (EACCU) can learn from the EU Customs Union.

4.2 The European Union Customs Union

The EU Customs Union was formed between the six founder member states (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) on July 1 1968¹⁹². A legal framework was established under the Community Customs Code¹⁹³ (The CCC) which is binding on all the current twenty seven member states of the EU¹⁹⁴. The CCC ensures that the common tariff is applied in the same way all along the EU's external borders, introduced a common approach on warehousing procedures and replaced the variety of customs documents with a single

¹⁹² See The European Union, *About the customs union*, available at <http://ec.europa.eu> (accessed on 13 August 2012).

¹⁹³ Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code, Official Journal L 302, 19/10/1992 P. 0001 – 0050. Available at <http://eur-lex.europa.eu> (accessed on 13 August 2012).

¹⁹⁴ *Ibid*, article 254.

administrative document¹⁹⁵. The common approach to procedures extends to the legal effect of such procedures since the CCC prescribes that the decisions, findings, identification measures taken or agreed on, and the documents issued by the customs authorities of one member state should have the same legal effects in other member states¹⁹⁶.

The European Commission's Taxation and Customs Union Directorate-General (the Directorate General) is tasked with developing and managing the EU Customs Union including to develop and implement a tax policy across the EU, to manage and secure the common external border and to combat the flow of illegal trade¹⁹⁷. The Directorate General is divided into five directorates¹⁹⁸ of which the function of IPR enforcement is under Unit B1 of Directorate B¹⁹⁹. The organisational structure therefore ensures that IPR enforcement is not treated as a secondary function of customs since there is a unit and customs officials designated specifically to deal with IPR enforcement. Other directorates which can be viewed as providing support in the enforcement of IPRs include directorate R which is in charge of resources and directorate A which is in charge of customs legislation and legislative reforms.

With a view of enhancing international cooperation, the EU customs has been working with other countries to ensure a high level of security in the goods these countries export into the EU. For example, the EU and China have been working for a number of years to solidify this trust in the area of customs²⁰⁰. Among the important measures taken was the signing of a Customs Cooperation and Mutual Administrative Assistance Agreement and the establishment of the EU-China Joint Customs Cooperation Committee to promote information exchange and to help find common solutions to problems encountered in tackling IPR enforcement²⁰¹. It is

¹⁹⁵ See The European Union, *About the customs union*, available at <http://ec.europa.eu> (accessed on 13 August 2012). *Supra*.

¹⁹⁶ Council Regulation (EEC) No 2913/92, *Supra*, article 250.

¹⁹⁷ European commission directorate general for taxation and the customs union, *mission statement and strategic goals*, available <http://ec.europa.eu> at accessed on 13 August 2012).

¹⁹⁸ Directorate R-resources, directorate A- customs policy, legislation, tariff , directorate B- security & safety, trade facilitation & international coordination, directorate C- indirect taxation and tax administration and directorate D -direct taxation, tax coordination, economic analysis and evaluation.

¹⁹⁹ See the directorate general's organisational chart available at <http://ec.europa.eu> (accessed on 15 October 2012).

²⁰⁰ See EU, *Commissioner Šemeta visits China to boost cooperation in custom controls and tackling counterfeit goods*, Press release IP/10/1079 (Brussels, 31 August 2010) available at europa.eu (accessed on 16 September 2012)

²⁰¹ *Ibid.*

noteworthy that China is the main source country from where goods suspected infringing an IPR entered the EU (73% of the total amount of articles)²⁰².

In terms of specific legislation for the enforcement of IPRs by customs, the EU has over the years published regulations to enable the customs authorities to act in order to prohibit the release for free circulation of counterfeit goods into the EU. As shall be discussed below, the EU customs union is a model of modern organisational theory as can be deduced from its efforts to review its legislation to keep up with changes in its operating environment and to promote its efficiency.

4.2.1 Council Regulation (EEC) No 3842/86²⁰³

Before TRIPs came into force, the EU had already established measures for the suspension of the release of counterfeit goods by customs through Council Regulation (EEC) No. 3842/86 (the 1986 regulation)²⁰⁴. The 1986 regulation set out procedures whereby trade mark owners could apply to the customs authorities of member states to request that they suspend the release for free circulation of goods suspected of being counterfeit²⁰⁵. It is noteworthy that goods contained in travellers' personal luggage or sent in small consignments of a non-commercial nature were excluded from the provisions of this regulation under the *de minimis* exception²⁰⁶.

Under the regulation, the applicant is required to provide proof of ownership of the trade mark and all pertinent information to enable the competent authority to act on the application in full knowledge of the facts and in particular to avail a sufficiently detailed description of the goods to enable them to be recognized by the customs authorities²⁰⁷. A fee was payable by the applicant to cover the administrative costs incurred in dealing with the application²⁰⁸. In terms of remedies available, the 1986 Regulation empowered the competent authorities, and in accordance with the provisions of national laws, to destroy goods found to be counterfeit, or dispose of

²⁰² see report on EU customs enforcement of intellectual property rights results at the EU border -2010, <http://ec.europa.eu> (accessed on 16 September 2012).

²⁰³ Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods, *Official Journal L 357*, 18/12/1986 P. 0001 – 0004, Available at <http://eur-lex.europa.eu> (accessed on 14 August 2012).

²⁰⁴ *Ibid.*

²⁰⁵ *Ibid.*, article 3 (1).

²⁰⁶ *Ibid.*, article 9.

²⁰⁷ *Ibid.*, article 3 (2).

²⁰⁸ *Ibid.*

them outside the channels of commerce in such a manner as to minimize harm to the trade mark owner²⁰⁹.

The Regulation recognized the evolving nature of international trade and consequently, it was prescribed that within three years following the entry into force of the 1986 Regulation, the Commission would report to the European parliament and the Council on the operation of the system instituted under the regulation and propose such amendments and additions that needed to be made.²¹⁰ Consequently, on 15th February 1991 the report from the Commission to the Council and the European parliament was published which identified weaknesses with the 1986 regulation²¹¹.

Some of the amendments proposed included considering the territorial competence of customs so that an applicant was not required to make an application for seizure in all the member countries as this was considered as a disincentive to file such applications²¹². Further, it was proposed that the requirement for a fee by the applicant was to be in proportion to the interest of trade mark owners since if the fee was too high the resultant effect would be to put off IPR holders from using the system²¹³.

The report suggested that a proposal for an amendment to the regulation to be submitted as soon as the conclusion of the General Agreement on Tariffs and Trade (GATT) Uruguay round negotiations of which among other agreements, TRIPs was under negotiation to allow the Commission to assess all aspects requiring the regulation to be amended²¹⁴.

4.2.2 Council Regulation no. 3295/94²¹⁵

The 1986 Regulation was repealed and replaced by council regulation no. 3295/94 (the 1994 regulation) which sought to implement the border control provisions of the

²⁰⁹ *Ibid*, article 7 (1) (a).

²¹⁰ *Ibid*, article 11.

²¹¹ See Commission of the European Communities, *Report from the commission to the council and the European Parliament*, (Brussels 1991) available at <http://aei.pitt.edu> accessed on 13 August 2012)

²¹² *Ibid*, p. 10.

²¹³ *Ibid*.

²¹⁴ *Ibid*, p. 2

²¹⁵ Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods, Official Journal L 341 , 30/12/1994 P. 0008 – 0013 available at <http://eur-lex.europa.eu> (accessed on 13 August 2012).

TRIPS agreement. The 1994 regulation extended the scope of border controls to include exports and goods in transit²¹⁶. It also expanded the definition of counterfeit goods to include packaging materials whether presented separately or as part of the goods and trade mark symbols bearing unauthorized trade marks²¹⁷ and extended the coverage of the system to goods protected under copyright²¹⁸.

By extending the scope of border controls to include exports and goods in transit, the EU adopted TRIPs plus measures²¹⁹. Notably, Article 52 of TRIPS limits the applicability of border measures to situations in which there is *prima facie* evidence of infringement of an IPR under the laws of the country of importation. The Court of Justice of the European Union has held that goods in transit coming from a non-member States which are imitations of goods protected in the EU by a trade mark right or copies of goods protected in the EU by copyright, a related right or a design cannot be classified as 'counterfeit goods' or 'pirated goods' within the meaning of the 1994 regulation merely on the basis of the fact that they are brought into the customs territory of the EU under a suspensive procedure²²⁰. Such goods would only be deemed to be counterfeit goods or pirated goods where it is proven that they are intended to be put on sale in the EU. The rationale provided for including goods in transit within the scope of the 1994 Regulation is to mitigate the risk of diversion of goods allegedly in transit into the EU²²¹.

Further, the 1994 Regulation introduced measures for ex-officio action where customs authorities shall detain goods which are suspected of infringing an IPR even when the right holder has not lodged an application and then notify the right holder to lodge the application within three days from the date of the detention of the goods²²². The time frame within which an IPR holder must lodge an application has been criticized as being short since a number of justificatory documents (often required in

²¹⁶ *Ibid*, article 1, 1(a).

²¹⁷ *Ibid*, article 1, 2 (a).

²¹⁸ *Ibid*, article 1, 2 (b).

²¹⁹ TRIPs plus measures go beyond the standards set out in TRIPs.

²²⁰ Council Regulation (EC) No 3295/94, *Supra*, article 1,2 (b).

²²¹ See the ECJ's decision in *Polo/Lauren Company LP v. Pt Dwidua Langgeng Pratam International Freight Forwarders*, Case C-383/98 [2000] ECR I-2519 (ECJ), paragraph 34.

²²² *Ibid*, article 4.

certified and legalised form) must be prepared and submitted within that time frame²²³.

In order to monitor and review the efficacy the 1994 Regulation in the enforcement of IPRs, the regulation required the Commission to report its implementation within two years of its entry into force²²⁴. The Commission report²²⁵, published in January 1998 recommended that the system be extended to cover goods protected by patents, as well as medicinal and plant products²²⁶. A study²²⁷ carried out by the Customs Policy Division of the Directorate General for Taxation and the Customs Union also identified other areas of the 1994 regulation might be improved.

The Commission's subsequent legislative proposal suggested the some changes to the system of border controls. Firstly, the system of border controls to be extended to cover other forms of IPRs. Particularly plant variety rights, geographical indications and designations of origin; secondly, requirements for the payment of fees to be largely abolished and obligations to provide security to be replaced by declarations of liability thereby providing right-holders with cost-free access to the system for seizure of goods; thirdly, a simplified procedure to be introduced to dispose off infringing goods in cases where parties interested in the goods do not object to their disposal; fourthly, the scope for *ex officio* action by customs authorities should be extended; fifthly, the extent of the non-commercial exception for *de minimis* imports should be clarified and finally, measures should be introduced to improve the flow of information between right holders and customs authorities²²⁸.

²²³ Paroussis M, *Europe IP Rights Enforcement through border measures*, p. 36 available at <http://www.iam-magazine.com>. (accessed on 3 August 2013).

²²⁴ *Ibid*, article 15.

²²⁵ See Commission of the European Communities, *Report from the Commission on the implementation of Council Regulation (EC) No 3295/94 of 22 December 1994 as regards border controls on trade in goods which may be counterfeit or pirated*, (Brussels, 1998) Available at <http://aei.pitt.edu> accessed on 14 August 2012).

²²⁶ *Ibid*, see paras 6.3-6.5.

²²⁷ Customs Policy Division of the Directorate-General for Taxation and the Customs Union, *Study Aiming to Improve Customs Control Regarding Intellectual Property Rights and to Facilitate access to an Effective Customs Regulation*, TAXUD/2001/1003(Brussels 2001), available at <http://ec.europa.eu> (accessed on 15 August 2012).

²²⁸ University of Alicante, *Guide to border enforcement of IPRS in the EU*, Available on <http://www.transknowlia.org> (accessed on 17 August 2012).

4.2.3 Council Regulation (EC) No. 1383/2003²²⁹

The regulation entered into force on 1st July 2004 and replaced Regulation No. 3295/94²³⁰. It is noteworthy that the 2003 regulation is integrated into the CCC. In particular, the customs operations covered by the regulation are defined by reference to the CCC²³¹. The 2003 regulation extended border enforcement of IPRs to include patents, supplementary protection certificates, plant varieties, designations of origin, geographical indications and geographical designations²³². However, to assist customs authorities in dealing with the forms of IP that require specialized knowledge for example plant varieties, the 2003 regulation contained a provision whereby customs authorities can request IPR holders to provide further information that is specific to the type of IPR covered by an application for action²³³.

Article 5 (7) abolished the requirement for an Applicant to pay a fee at the time of making the application. However, as a risk management measure, the applicant is required to submit a declaration either in writing or electronically accepting liability towards the customs authority in the event that the suspension of goods is discontinued owing to an act or omission by the applicant or in the event that the goods in question are subsequently found not to infringe an IPR²³⁴.

The non commercial exception for *de minimis* goods was also clarified in that it would only apply where a traveller's personal baggage contains goods of a non-commercial nature within the limits of the duty-free allowance and when there are no material indications to suggest the goods are part of commercial traffic²³⁵. The significance of this clarification was to prevent the exploitation of the *deminimis* exception whereby small but regular consignments of counterfeit goods could be brought into the EU.

In terms of encouraging the use of a customs recordation system, article 5 (3) requires that member states lodge applications for the suspension of the release of

²²⁹ Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, Official Journal L 196 , 02/08/2003 P. 0007 – 0014 available at <http://eur-lex.europa.eu> (accessed on 17 August 2012)

²³⁰ *Ibid*, article 25.

²³¹ *Ibid*, article 1(1)(a).

²³² *Ibid*, article 1 2 (a).

²³³ *Ibid*, article 5 6.

²³⁴ See article 6 (1).

²³⁵ *Ibid*, article 3 (2).

suspected infringing goods electronically²³⁶. This provision assists in the productive efficiency of the EU customs since resources are not wasted going through the application paperwork and then capturing the data electronically.

However, an issue of concern is that some member states began to develop their own e-filing systems which were not interoperable with the proposed uniform and joint customs database for EU²³⁷. The introduction of a database for recording customs seizures and circulating the information between the customs authorities of the different member states was also proposed²³⁸. Such a database would assist customs in risk analysis and tactical risk management by enabling customs to use the data to analyse the trends in counterfeiting and to profile the risk accordingly. The 2003 regulation made provisions for the member states to opt for the adoption of a new simplified procedure for disposing off goods suspected of infringing IPRs of which the simplified procedure allows customs authorities with the right holder's consent, to have suspect goods abandoned for destruction under customs control without determining whether an IPR has been infringed under the respective national laws²³⁹. This provision avoids costly administrative procedure for determining IPR infringement especially in instances where the goods are visibly counterfeit.

4.2.3.1 Proposals to amend Council Regulation (EC) No. 1383/2003

On 16 March 2009 the Council adopted a resolution²⁴⁰ on the EU customs action plan to combat IPR Infringements for the Years 2009-2012. The action plan includes about fifty targeted measures to be implemented by the commission or the members states, with a particular focus on improving and where necessary modifying, existing IPR legislation; strengthening operational cooperation between customs in the EU; improving cooperation with right-holders; developing further international cooperation on IPR enforcement; improving publicity and awareness, responding to the problem of internet sales and delivering ad hoc training to customs officers²⁴¹.

²³⁶ *Ibid*, article 5 (3).

²³⁷ European Communities Trade Mark Association, *comments on a new multi-annual EU customs action plan to combat IPR infringements*, Brussels, 2 May 2012 p. 2 Available at <http://www.ecta.org> (accessed on 15 September 2012).

²³⁸ *Ibid*.

²³⁹ *Ibid*, article 11 (1).

²⁴⁰ COUNCIL RESOLUTION of 16 March 2009 on the EU Customs Action Plan to combat IPR infringements for the years 2009 to 2012 available at (2009/C 71/01) <http://ec.europa.eu> (accessed on 15 September 2012).

²⁴¹ See EU, *EU customs action plan*, available at <http://ec.europa.eu> (accessed on 15 September 2012).

In term of legislative reforms, article 23 of the 2003 regulation requires that the commission to report to the EU council on the application of the regulation and to propose amendments where applicable. Consequently, the commission has been working towards the proposed amendments to the 2003 and even engaged stakeholders to contribute to the review of customs legislation on enforcement of IPRs²⁴². Some of the proposals for amendment include increasing the scope of the IPRs covered by the regulation by including trade names, topographies of semiconductor products, utility models and parallel imports²⁴³. It was also proposed that the new regulation allows for the submission of a single union application with respect to any IPR applying throughout the EU²⁴⁴.

Further, in order to reduce to the minimum the administrative burden and costs placed on customs, a procedure should be introduced to allow customs at its own cost to destroy small consignments of counterfeit and pirated goods without having to seek the IPR holders consent²⁴⁵. This procedure would especially be targeted at the significant quantities of small shipments containing suspected IPR infringing goods sent through post or courier and being ordered via the internet with a view of increasing the effectiveness of customs to stop counterfeit goods sold via the internet²⁴⁶.

4.2.4 Regulation (EU) No 608/2013²⁴⁷ (The 2013 Regulation)

This regulation repeals the 2003 Regulation and shall apply from 1 January 2014. The 2013 regulation extends the scope of IPRs covered through border enforcement measures to also include trade names, topographies of semiconductor products, utility models and devices which are primarily designed, produced or adapted for the purpose of enabling or facilitating the circumvention of technological measures²⁴⁸.

²⁴² See EU, *summary of the public consultation on the review of customs legislation on IPR enforcement*, (Brussels, 2011) available at <http://ec.europa.eu> (accessed on 15 September 2012).

²⁴³ *Ibid*, p. 4.

²⁴⁴ *Ibid*, see p 6 and p. 64

²⁴⁵ *Ibid*, p. 24.

²⁴⁶ See, Commission staff working paper-summary of the impact assessment accompanying document to the proposal for a regulation of the European parliament and of the council concerning customs enforcement of intellectual property rights, p. 5 available at <http://www.europarl.europa.eu> (accessed on 15 September 2012)

²⁴⁷ Regulation (EU) No. 608/2013 of the European parliament and of the Council of 12 June 2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation (EC) No 1383/2003. OJ L 181/15 29.6.2013. Available at <http://eurlex.europa.eu> (accessed on 8 July 2013).

²⁴⁸ OJ L 181/15 29.6.2013, article 2 (1).

The regulation however expressly excludes parallel imports and overruns from its scope²⁴⁹.

The Regulation makes provision for the submission of a single Union application for seizure of goods where an IPR has effect throughout the union²⁵⁰. The particular customs department that receives the application is subsequently under an obligation to communicate its actions on the application with the customs departments of all the member states of which the IPR extends to. In order to promote efficiency, the regulation prescribes that such information sharing be made through a centralised database²⁵¹ and in order to prevent abuse, access of such information shall be based on the purpose limitation principle²⁵².

In order to reduce the administrative burden and costs to a minimum, the Regulation introduces a procedure for the destruction of small consignments of counterfeit and pirated goods that are intercepted through the postal or express courier system without the explicit agreement of the applicant. The regulation requires that an Applicant should make a general request for the application of such a procedure at the time of filing their application for the enforcement of their IPR through customs²⁵³.

In an effort to reduce the international trade in counterfeit goods, the EU has also made provisions for information sharing with third countries where suspected counterfeit goods are in transit through the EU in an effort to keep up with the TRIPs obligations that require members of the WTO to promote the exchange of information between customs authorities on matters dealing with the trade in counterfeit goods²⁵⁴.

It is noteworthy that the preamble of the 2013 regulation recognises that the regulation acknowledges that member States face increasingly limited resources in the field of customs and recommends that risk management technologies and

²⁴⁹ The rationale for this is that although the trade in overruns and parallel imports is illegal, such goods are manufactured as genuine goods whereas the Regulation focuses on the detention of counterfeit goods.

²⁵⁰ OJ L 181/15 29.6.2013, *Supra*, article 4.

²⁵¹ *Ibid*, article 31 (4). As per article 32, It is prescribed that the database be operational as soon as possible and not later than 1 January 2015.

²⁵² The principle of purpose limitation has two main building blocks: data must be collected for 'specified, explicit and legitimate' purposes (purpose specification) and not be 'further processed in a way incompatible' with those purposes (compatible use). Further processing for a different purpose does not necessarily mean that it is incompatible, but compatibility needs to be assessed on a case-by-case basis, taking into account all relevant circumstances. See EU, article 29 Data protection working party, press release. Available at <http://ec.europa.eu> (accessed on 9 July 2013).

²⁵³ OJ L 181/15 29.6.2013, *Supra*, article 26.

²⁵⁴ *Ibid*, article 22.

strategies be supported in order to maximise resources available to customs authorities²⁵⁵. The preamble also recognises the need for the member states of the EU to provide appropriate training for customs officials, in order to ensure the correct implementation of this Regulation.

4.2.5 Conclusion

From the foregoing analysis, a concern that emerges is that although the EU has over the years expanded the scope of the IPRs that are covered by the border measures, Customs cannot be held liable in case of wrongful *ex officio* detention even in instances where Customs is not properly equipped to identify goods that infringe patents, plant variety rights, unregistered design rights or geographical indications²⁵⁶. Further there are also concerns that expanding the scope of IPRs covered by the border measures will adversely affect the protection of rights holders and consumers against the most egregious forms of counterfeiting in the form of trademark infringement as customs will need more resources to cover the expanded scope²⁵⁷. This issues would have to be addressed by the EU to ensure that expanding the scope of IPRs covered by border measures is in fact not counterproductive.

It can also be deduced that the EU Customs Union epitomises the modern organisational theory since the European Commission actively keeps track of the trends in counterfeiting and therefore recommends the adoption of legislative changes accordingly besides making recommendations for the use of customs risk management in order to efficiently utilize its resources. The European Commission also collaborates with IPR holders whose views are incorporated when amending legislation and also advocates for cooperation on anti-counterfeiting strategies with countries exporting into the EU in an effort to reduce the number of counterfeit imports into the EU.

²⁵⁵ *Ibid*, article 9.

²⁵⁶ See Paroussis, *supra*, p. 38.

²⁵⁷ INTA, *Comments on the Proposal for a Regulation of the European Parliament and of the Council concerning customs enforcement of intellectual property rights*, available at <http://www.inta.org> (accessed on 3 August 2013).

4.3 The East African community Customs Union

The current EAC regional integration initiative has its origin in the mediation agreement for division of assets and liabilities of the EAC which collapsed in 1977²⁵⁸. In that agreement signed on 14 May 1984 there was a provision that the three East African countries (Kenya, Tanzania and Uganda) could explore areas of future co-operation²⁵⁹. Consequently, the three EAC partner states agreed within the Framework of the Treaty for the Establishment of the EAC that came into force on July 7 2000, to continue trading preferentially along the trade regime applicable at the time of signing of the treaty. A Protocol for the establishment of the EACCU was signed by the three East African heads of state on March 2 2004. Rwanda and Burundi have since joined the EACCU in (2008) and started applying its instruments in July 2009²⁶⁰.

To facilitate the implementation of the Customs Union and a common market, policies and legislation are being developed as regional instruments to be uniformly applied by the partner states²⁶¹. In furtherance of the above programme and to improve the business and investment climate in the region, the EAC has identified as a priority the need to prohibit and control trade in counterfeit and pirated goods which is rampant in the region and a big disincentive to investors, both local and foreign²⁶². Currently there are no detailed provisions for the enforcement of IPRs through customs in the EAC as envisaged by the border measures outlined in TRIPs²⁶³. However, the EAC secretariat has published the EAC draft Policy on Anti-counterfeiting²⁶⁴ which is the basis of the EAC Anti-counterfeit Bill.

4.3.1 The East African Community Anti-Counterfeit Bill 2010

In the year 2010, a draft Bill whose aim is to prohibit trade in counterfeit goods, to establish national anti-counterfeit institutions and for connected purposes in the

²⁵⁸ See EAC, *EAC Customs union, an overview*, available at <http://www.eac.int> (accessed on 11 August 2012).

²⁵⁹ *Ibid.*

²⁶⁰ *Ibid.*

²⁶¹ See EAC, *Formulation of an EAC Policy On Anti-counterfeiting, Anti-Piracy and other Intellectual Property Rights Violations* 2009 available at www.iccwbo.org assessed on 11 August 2012).

²⁶² *Ibid.*

²⁶³ As discussed in chapter three, the EACCU does not contain detailed and specific provision for the enforcement of IPRs through customs. For example Counterfeit goods are listed in the second schedule amongst a list of prohibited and Restricted imports.

²⁶⁴ EAC, *The East African Community Anti-Counterfeit Bill*, 2011.

community was prepared²⁶⁵. Once the Bill is passed into law, the Act shall take precedence over all the laws of the partner states with respect to any matter to which its provisions relate²⁶⁶. The Bill has undergone several amendments and currently has the following key provisions for the enforcement of IPRs through customs.

4.3.1.1 Scope of IPR enforcement

The bill limits the scope of IPR enforcement to the rights in respect of a trade mark and copyright protected by the laws of the relevant partner state²⁶⁷. This is the minimum standard stipulated in the border measures under TRIPs²⁶⁸ and is comparable with the scope of IPR enforcement in the EU's 1986 regulation and expanded by the 1994 regulation both which have since been repealed.

The *de minimis* exclusion applies since acts of infringement under the bill include the importation into, transit through and transshipment within or export from a partner state except for private and domestic use of the importer or exporter as of any counterfeit goods²⁶⁹.

4.3.1.2 Appointment and role of national anti-counterfeit institutions and the commissioner of customs

Within six months of the entry into force of the act, each partner state is obliged to establish the national anti-counterfeit institution and ensure that such an institution has the necessary personnel, financial and technical resources to discharge its functions and duties under the Act²⁷⁰. The institutions are charged with the responsibility of an advisory role in anti-counterfeit issues, research and training of judicial officers, prosecutors, inspectors and its own staff on intellectual property law generally and to combat trade and other dealings in counterfeit goods in the relevant partner state²⁷¹. In terms of coordination with the other partner states, the bill requires the institutions to liaise with other relevant organs and institutions within the partner states and internationally to ensure a well coordinated and harmonized

²⁶⁵ *Ibid*, preamble.

²⁶⁶ *Ibid*, section 2 (2) –Kenya has enacted an anti counterfeit act; Tanzania has a merchandise marks act Cap 85 to deal with counterfeits; Uganda has an anti-counterfeit goods bill 2010 which is yet to be passed into law ; Rwanda and Burundi have their anti-counterfeit laws integrated into their consolidated IP laws.

²⁶⁷ *Ibid*, section 3.

²⁶⁸ All members states of the EAC are also signatories to TRIPs.

²⁶⁹ *Supra* note 54, section 13 (1) (f).

²⁷⁰ *Ibid*, section 4 (1).

²⁷¹ *Ibid*, see section 5.

approach in IPR enforcement²⁷². One shortcoming of the bill is that it does not mandate a centralised coordination unit to ensure that the EAC engages internationally as a single unit.

In terms of IPR enforcement by customs, the commissioners of customs in the member states are to sit in the management boards of the institutions²⁷³. The owner of an IPR may apply to the commissioner to seize goods suspected of infringing their IPR²⁷⁴. An application made to the commissioner to detain imported goods to a partner state which are suspected to being counterfeit may contain full particulars of the subsistence and extent of that IPR, title to that right and a specimen of the good/s protected by that right²⁷⁵. The Application must contain sufficient security to indemnify the customs authorities and their officers against any liability that may be incurred pursuant to the seizure and detention of goods²⁷⁶. These provisions are comparable with article 3 of the EU's 1986 Regulation and section 2 of the 2003 Regulation.

Once the commissioner receives an application, he shall by written notice state the period during which the goods shall be subject to seizure and upon the seizure seal, identify and categorize the goods and prepare an inventory of them of which the owner will sign against to verify the accuracy of the inventory²⁷⁷. Like the position in the EU, the storage costs are borne by the applicant but they are recoverable upon the successful determination that the goods are counterfeit²⁷⁸. The cost for destruction of the infringing goods are borne by the offender²⁷⁹.

It is noteworthy that the bill makes provisions for the commissioner of customs and customs officials to act on their own initiative in relation to any act or conduct believed or suspected to be an act of dealing in counterfeit goods²⁸⁰. The commissioner can then take appropriate steps to seize any suspected counterfeit goods even when no complaint has been lodged²⁸¹.

²⁷² *Ibid*, section 5 (h).

²⁷³ *Ibid*, section 6.

²⁷⁴ *Ibid*, section 33 (1).

²⁷⁵ *Ibid*, section 33 (2) (a) – (b).

²⁷⁶ *Ibid*, section 33 (7).

²⁷⁷ *Ibid*, section 22 (1) (a).

²⁷⁸ *Ibid*, section 23 (5).

²⁷⁹ *Ibid*, section 31(1).

²⁸⁰ *Ibid*, sections 19 (1) (2) as read with sections 18 (6) and 33 (6).

²⁸¹ *Ibid*.

4.3.1.3 Recordation of IPRs

As a risk management tool, the bill proposes to make it mandatory for any IPR holder who seeks to be protected from counterfeiting under the act to each year furnish the institution and customs authorities in the partner state a full list and description of the IPRs which shall be entered into the respective data bases upon the payment of a prescribed fee²⁸². The Application must contain copies of the relevant certificates of registration and any renewals together with samples of the genuine products of which the IPR is used on²⁸³.

The requirement to record the IPRs on an annual basis is not only costly but burdensome on the owners of the IPRs and is likely to also unnecessarily put a strain on the resources of the customs authorities. However, it should be noted that the failure by the IPR holder to record their IPR shall not disentitle them to the remedies provided for under the bill so long as they provide an undertaking to supply the required information at the earliest opportunity following the lodgement of a complaint with the institution and customs authorities²⁸⁴.

4.4 Conclusion

From the foregoing discussion, it can be inferred that deeper integration and harmonization of the laws of member states in a customs union is a key component in the effective enforcement of IPRs. The EAC can borrow lessons from the EU in this regard as the EU has made strides in the harmonization of the domestic IP laws in the member states and is working towards allowing IPR holders to file a union application for seizure of goods for IPRs that extend across the union²⁸⁵.

Information sharing and coordination of enforcement activities between member states in a customs union and international cooperation contributes to more effective enforcement of IPRs through customs as can be deduced from the EU. The EACCU can enhance the border enforcement of IPRs by collaborating with the countries of

²⁸² *Ibid*, section 32 (1).

²⁸³ *Ibid*, section 32 (4).

²⁸⁴ *Ibid*, section 32 (5).

²⁸⁵ See, Commission staff working paper-summary of the impact assessment accompanying document to the proposal for a regulation of the European parliament and of the council concerning customs enforcement of intellectual property rights, p. 5 available at <http://www.europarl.europa.eu> (accessed on 15 September 2012).

which a majority of counterfeit goods originate from in order to be efficient and effective in the enforce IPRs in the EAC.

CHAPTER FIVE

FINDINGS AND PROPOSALS FOR REFORM

5.1 Introduction

The purpose of this study has been to undertake an analysis of the legislative regime and institutional framework governing customs in its role of enforcement of IPR in Kenya with a focus on efficient and effective compliance with section 4 of part III of TRIPs. The study has also highlighted the EU Customs Union approach to the effective enforcement of IPRs and the lessons that can be borrowed from the EU Customs Union.

This paper identifies a number of issues that need to be addressed in order to promote the efficient and effective enforcement of IPRs through customs in Kenya viz, clear delineation of roles , indemnity and security requirements, the customs recordation system , the *deminimis exception*, and other measures as shall be discussed below.

5.2 Clear delineation of roles

Although customs authorities can contribute effectively in the fight against counterfeiting and piracy, the role of customs has to be defined very precisely if customs' intervention is not to hinder the smooth flow of trade in legitimate goods²⁸⁶ and IPR enforcement. As discussed in chapter three of this paper, there is a duplication of roles between the Anti-Counterfeit Agency and customs administrations in the enforcement of IPRs which encourages turf wars and promotes inefficiency due to the additional costs involved in enforcement. It is recommended that the Anti-Counterfeit Agency focuses on domestic counterfeiting besides its other functions stipulated under section 5 of the Act²⁸⁷ while customs should focus on enforcement of IPRs for goods that pass through customs control. In terms of promoting efficiency in IPR enforcement within the Customs services department, rather than delinking customs management from other revenue and tax

²⁸⁶ *Ibid*

²⁸⁷ Act No 13 of 2008, Laws of Kenya.

administration aspects within KRA, it is recommended that the current Revenue Authority model stays in place based on the advantages that are achieved through having this model as highlighted in chapter two of this paper including increased savings through economies of scale occurring from common use of ICT systems, cross training and pooling of resources, and ease of information sharing and instead a specialised customs anti-counterfeit unit be set up to specifically deal with the enforcement of IPRs.

5.3 Resource allocation

Section 16 (1) of the Kenya Revenue Authority Act²⁸⁸ prescribes that the funds available to KRA shall include two per cent or less of the actual amount collected in respect of a particular period,²⁸⁹ loans and grants received by the Authority with the approval of the Cabinet Secretary in charge of finance, and any other monies that may be received with the approval of the Cabinet Secretary for the purpose of performing its functions. However, the prescribed amount available for use by KRA is not sufficient to enable KRA to effectively perform its functions as evidenced in KRA's fifth corporate plan²⁹⁰. It is recommended that the prescribed percentages of the amounts available for use by KRA be revised upwards to address the funding shortfall. It is also recommended that a specific amount of funding is allocated for the non revenue collecting functions of KRA including the enforcement of IPRS.

5.4 Indemnity and security requirements

As required by TRIPs, customs authorities shall have the authority to ask the applicant to provide security²⁹¹. However, an eventual security required by customs should be reasonable and should be set at a level that does not unreasonably deter recourse to customs procedures. The Anti-Counterfeit Act and the EAC Anti-Counterfeit Bill require that an Application for the detention of goods to contain sufficient security to indemnify customs. The regulations to the Act and the Bill do not provide details on the form that the security should take. To implement a fair and flexible mechanism for the provision of security to customs authorities, it is

²⁸⁸ Chapter 469, Laws of Kenya.

²⁸⁹ *Ibid*, section 16 (1) (a).

²⁹⁰ in the 2011-2012 financial year KRA was underfunded by four point one six three billion Kenya shilling. See KRA, *Fifth Corporate Plan 2012/2013-2014/2015*, (Nairobi, 2012), table 2.3 resource projections against actual provisions values in KES. min p. 22. Available at <http://www.kra.go.ke> (accessed on 1 October 2012).

²⁹¹ TRIPs, *supra*, article 53.

recommended that the Act provides full recognition to any of the following; the provision of a continuous security, to avoid the need for individual bonds for each shipment; foreign bank guarantees including those issued by the bank in the country in which the right holder is established in the cases where the Applicant is a foreign company; counter-guarantees by a branch office of the bank in the country of establishment of the right holder; or certified documents showing that the applicant has sufficient assets to cover a possible damage claim²⁹².

5.5 Customs recordation system

As discussed in chapter three of this paper, the EACCMA solely makes provisions for *ex-officio* action as there are no provisions that enable an IPR holder to make an application for the seizure of counterfeit goods. However, the EACCMA does not have provisions for the recordation of IPRs with customs. It is recommended that the EACCMA be amended to include provisions that allow IPR holders to provide customs with details of their IPRs. Customs recordation plays a strategic role in *ex-officio* enforcement of IPRs acting as the efficient vehicle to fight against the infringing goods for protection at the country border²⁹³.

Further customs recordation is a useful tool in risk management as it increases the chances of correctly identifying counterfeit goods which in turn reduces incidents of wrongful detention of goods. It is also recommended that the Act allows for an electronic customs recordation system. An electronic recordation system greatly decrease the amount of time and paperwork normally required, thus providing more efficient enforcement of IPRs.

As highlighted in chapter four of this paper, the EAC Anti-counterfeit Bill, which if passed into law will apply to Kenya, proposes that customs recordation be done on an annual basis. However, this requirement promotes inefficiency by unnecessarily using up customs resources. It is also ineffective in the sense that it does not encourage compliance due to its burdensome nature. It is recommended that the bill be amended so that an IPR holder should only be required to record their IPR with customs once and then update the records in the event that the status of their IPR changes for example, if it expires or there is a change in ownership.

²⁹² WCO, *Model provisions for national legislation to implement fair and effective border measures consistent with the TRIPS Agreement*, *Supra*, p. 16.

²⁹³ See <http://www.easternip.com.cn> (accessed on 30 August 2012).

5.6 De minimis exception

According to the WCO, markets for legitimate products are very often harmed in numerous countries because infringing goods are being imported in large quantities from third countries under the guise of 'personal' goods²⁹⁴. The problem is further compounded in particular with respect to goods protected by a copyright or related rights as products are increasingly produced and used in digital form since a pirate can bring a small shipment of pirated digital goods from one country to another, invoking the personal goods exemption, and then use these few counterfeits to produce thousands of other illegal copies which can be a source of great commercial harm to right holders²⁹⁵.

The Kenya Anti-counterfeit Act and the proposed EAC Anti-counterfeit Bill both exclude imported and exported goods for private and domestic use from seizure. As highlighted above, the *de minimis* exception may be exploited to promote counterfeiting. On the other hand, customs resources would be ineffectively used if the *de minimis* exception is done away with completely. As a way of managing the risk of the misuse of the *de minimis* exception, it is recommended that the provisions be amended to make it clear that the exception only applies where there are no material indications to suggest that the excluded goods for private and domestic use are not part of commercial traffic.

5.7 Regional Integration

Regional integration refers to the unification of nation states into a larger whole through a process that entails a country's willingness to share or unify into a larger whole²⁹⁶. The degree to which it shares and what it shares determines the level of integration²⁹⁷. Article 5 (2) of the treaty establishing the EAC stipulates that: "Partners states undertake to establish among themselves and in accordance with the provisions of the treaty, a customs union, a common market, subsequently a monetary union and ultimately a political federation".

²⁹⁴ WCO, *Model provisions for national legislation to implement fair and effective border measures consistent with the TRIPS Agreement*, *Supra*, p. 32.

²⁹⁵ *Ibid.*

²⁹⁶ Soomer J, *Why regional integration benefits*, 2003 available <http://www.eccb-centralbank.org> accessed on 30 August 2012.

²⁹⁷ *Ibid.*

The EAC is currently at the level of having already formed a common market upon the ratification and coming into force of the EAC common market protocol²⁹⁸. It is recommended that even upon coming into force of the EAC Anti counterfeit Act, member states should harmonize their IP laws which are the subject matter of the customs enforcement measures discussed in this paper and possibly also enact common EAC IP laws that would enable an Applicant to apply for the registration of their IP across the EAC using one application.

5.8 Other measures

A survey conducted by the World Intellectual Property Organisation (WIPO) in 2002 indicated that the main barriers to eliminating counterfeiting and piracy were found in the remedies and penalties available (or not available) to stop and deter counterfeiting and piracy²⁹⁹. The ineffectiveness of enforcement systems was attributed, in many cases, to a lack of human resources, funding and practical experience in IP enforcement of relevant officials, including the judiciary; insufficient knowledge on the part of right holders and the general public concerning their rights and remedies and the systemic problems resulting from insufficient national and international coordination including a lack of transparency³⁰⁰.

The EACCMA does not include explicit provisions on the functions of the directorate of customs to include the implementation of educational and training programmes for the relevant officials and creating awareness on anti-counterfeiting to the public and right holders. It is recommended that the EAC Anti-counterfeit bill which contains substantive provisions on the dissemination of information, training research as well as international cooperation be integrated into the EACCMA once it is passed into law.

5.9 Conclusion

From the foregoing chapters, it is clear that Kenya has to a large extent complied with the border measures stipulated in section 4 of part III of TRIPs in its quest to

²⁹⁸ The East Africa Common Market Protocol came into force on 7th July 2010.

²⁹⁹ See WIPO, *existing needs for training and for development of enforcement strategies*, WIPO/CME/2 Rev (Geneva, 2002) Consultation meeting on enforcement

Available at www.wipo.int. (accessed on 30 August 2012).

³⁰⁰ *Ibid*, p 25.

enforce IPRs through customs except for the discrepancies highlighted throughout the paper. However, the same discrepancies lead to the inefficient use of custom's limited resources and discourage compliance with the laws. The recommendations discussed in this chapter if implemented would to an extent ensure the efficient and effective enforcement of IPRs through customs in Kenya in compliance with section 4 of part III of TRIPs.

REFERENCES

Legislation

The Constitution of Kenya 2010.

The Anti-Counterfeit Act, Act No. 13 of 2008, Laws of Kenya.

The Customs and Excise Act, Republic of Kenya, Chapter 472, Laws of Kenya.

The East African Community Anti-Counterfeit Bill, 2011.

The East African Community Customs Management Act.

The Kenya Revenue Authority Act, Chapter 469, Laws of Kenya.

Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code, *Official Journal L 302*.

Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods, *Official Journal L 357*, 18/12/1986.

Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods, *Official Journal L 341*, 30/12/1994.

Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, *Official Journal L 196*, 02/08/2003.

Regulation (EU) No. 608/2013 of the European parliament and of the Council of 12 June 2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation (EC) No 1383/2003. OJ L 181/15 29.6.2013.

Commission Regulation No 1891/2004, OJ L 328, 30.10.2004.

TRIPS: *Agreement on Trade-Related Aspects of Intellectual Property Rights*, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, the legal texts: the results of the Uruguay round of multilateral trade negotiations 320 (1999), 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994).

Books

Angharad Miller & Lynne Oats, *Principles of international taxation*, (Tottel publishing, 2 Pap/Psc edition, West Sussex , 2009).

Dollery B & Wallis J ' *The Political Economy of Local Government*', (Edward Elgar Publishing, Massachusetts, 2001).

Dollery B & Wallis J, *Economic efficiency, Encyclopedia of Public Administration and Public Policy*, (2nd Ed, CRC Press, Florida, 2007).

Hicks G & C. Ray Gullet, *Organisations: Theory and behaviour*, (McGraw-Hill, Michigan, 1975).

McLinden & Enrique Fanta Et Al (Ed), *Border Management Modernization*, (Washington DC: The World Bank, 2005).

Posner, R, *Economic Analysis of Law*, (7th Ed, Aspen Publishers 2007).

Schumpeter J, *Capitalism, Socialism and Democracy*; (3rd Ed, Harper Perennial 1962).

Smith A, *Wealth of Nations*, edited by C. J. Bullock. Vol. X. The Harvard Classics. New York: P.F. Collier & Son.

WCO, *Risk Management Guide*, (Brussels: WCO, 2003).

Wulf L & Sokol B (Ed), *Customs Modernization Handbook*, (Washington DC: The World Bank, 2005).

Articles

Blackeney, 'Guidebook on Enforcement of Intellectual Property Rights', Queen Mary Intellectual Property Research Institute Queen Mary, University of London. Available at http://trade.ec.europa.eu/doclib/docs/2005/april/tradoc_122641.pdf.

Branstetter Et Al, 'Has the shift to stronger Intellectual Property Rights promoted technology transfer, FDI and Industrial development?' *WIPO journal 2010 Volume 2 Issue 1*.

Commission of the European Communities , 'Report from the Commission on the implementation of Council Regulation (EC) No 3295/94 of 22 December 1994 as regards border controls on trade in goods which may be counterfeit or pirated', (Brussels, 1998), available at <http://aei.pitt.edu>.

Commission staff working paper-summary of the impact assessment accompanying document to the proposal for a regulation of the European parliament and of the council concerning customs enforcement of intellectual property rights, available at <http://www.europarl.europa.eu>.

Customs Policy Division of the Directorate-General for Taxation and the Customs Union, 'Study Aiming to Improve Customs Control Regarding Intellectual Property Rights and to Facilitate access to an Effective Customs Regulation', *TAXUD/2001/1003*(Brussels 2001), available at http://ec.europa.eu/taxation_customs/resources/documents/modernisation_en.pdf.

Docherty J and. Surles R et al, 'Organizational theory', available at <http://www.cumc.columbia.edu>

Donelan E , 'Legislative Drafting – civil and common law approaches compared', Available at www.oecd.org

EAC, 'EAC Customs union, an overview', available at <http://www.eac.int>.

EAC, 'Formulation of an EAC Policy On Anti-counterfeiting, Anti-Piracy and other Intellectual Property Rights Violations' 2009 available at www.iccwbo.org.

EC Pauser Jr, 'Economic Efficiency: Touchstone or mirage', *the intercollegiate review*, 1981 available at <http://www.mmisi.org>.

EU, 'Risk management for customs in the EU', available at <http://ec.europa.eu>.

European Commission staff working paper, 'summary of the impact assessment accompanying document to the proposal for a regulation of the European parliament and of the council concerning customs enforcement of intellectual property rights', available at <http://www.europarl.europa.eu>.

European Commission, Taxation & Customs Union, 'Risk Management for Customs in the EU', Available at <http://ec.europa.eu>.

European Communities Trade Mark Association, 'comments on a new multi-annual EU customs action plan to combat IPR infringements', Brussels, 2 May 2012 at <http://www.ecta.org>.

European Union, 'EU customs action plan', available at <http://ec.europa.eu>.

European Union, 'Summary of the public consultation on the review of customs legislation on IPR enforcement', (Brussels, 2011) available at <http://ec.europa.eu>.

Ilias S, The Proposed Anti-Counterfeiting Trade Agreement: Background and Key Issues, at p. 2 ,available at <http://www.fas.org>

Farrell M J, 'The measurement of productive efficiency', *Journal of the Royal Statistical Society. Series A (General)* Vol. 120, No. 3 (1957), p. 253-290.

Fink C et al, 'How Stronger Protection of Intellectual Property Rights Affects International Trade Flows', available at <http://www.aseanipa.org>.

Foley R and Northway B, 'Managing risks in customs lessons from the New Zealand Customs Service', *Investment climate in practice*, Vol. No. 12 , April 2012 Available at <https://www.wbginvestmentclimate.org>.

Gordhan P , 'Customs in the 21st Century', *World Customs Journal* , Volume 1, Number 1, 2007, available at <http://customscentre.canberra.edu.au>.

Gupta A, 'Border Enforcement of Intellectual Property Rights in India: Recent Developments', 1(2) *TRADE L. & DEV.* 192 (2009).

Hinsta J and Männistö, T Et Al, 'Customs risk management (CRiM): A Survey of 24 WCO Member Administrations', available at <http://www.wcoomd.org>.

ICTSD, 'The Global Debate on the Enforcement of Intellectual Property Rights and Developing Countries', *ICTSD IPR and Sustainable Development Programme, Issue Paper No.22*, ICTSD, Geneva, Switzerland 2009 at p. 52 , available at <http://www.iprsonline.org>.

IESO, 'Economic concepts of efficiency', Available at <http://www.ieso.ca>.

Iordache E, 'Aspects of Risk Management in a Customs Area', University of Petesti 2011 available at <http://www.strategiimanageriale.ro>.

Jit B. S. Gill, 'The nuts and bolts of revenue administration reform', available at <http://siteresources.worldbank.org>.

KAM, 'The study to determine severity of the counterfeit problem in Kenya as it affects industries and impact of proliferation of counterfeit products from other EAC partner states and Far East countries into the Kenyan market', (Nairobi, 2012).

Kieck E, 'Coordinated border management: unlocking trade opportunities through one stop border posts', Available at <http://www.worldcustomsjournal.org>

Koslowski R, 'Real challenges for virtual border', available at <http://www.migrationpolicy.org>.

KRA, 'Fifth Corporate Plan', 2012/2013-2014/2015,(Nairobi,2012), table 2.3 resource projections against actual provisions values in KES. min p. 22. Available at <http://www.kra.go.ke>.

Landley et al, 'Conceptualising the Border and Customs in the 2^{1st} Century - or How to Outfox the Future', available at <http://igps.victoria.ac.nz>

Mahmoud M. Alajloni and Ziad. M. S. Almashaqba *et al* , 'The classical theory of organisation and its relevance', International Research Journal of Finance and Economics, Issue 41 (2010) available at <http://www.eurojournals.com>.

Mbote P, Intellectual property protection in Africa: An assessment on the status of laws, research and policy analysis on Intellectual property in Kenya, IELRC working paper 2005-2, available at <http://www.ielrc.org>

O'Dowd L., 'Analyzing Europe's borders', IBRU Boundary and Security Bulletin, Summer 2001 Available at <http://www.dur.ac.uk> .

OAGC, Understanding efficiency concepts', available at <http://www.oagbvg.gc.ca>.

OECD, 'Efficiency of tax administrations', Government at a Glance ,2011 available at www.oecd.org/

Paroussis M, 'Europe IP Rights Enforcement through border measures', available at <http://www.iam-magazine.com>.

Polinsky M & Shavell S, Economic Analysis of Law , Harvard John M. Olin Center for Law, Economics, and Business, Discussion Paper No. 536 12/2005

Polner M, 'Coordinated border management: From Theory to Practice', available at <http://www.wcoomd.org>.

Soomer J, 'Why regional integration benefits', 2003 available <http://www.eccb-centralbank.org>

The Anti-counterfeit agency, 'Strategic plan 2010-2015', available at <http://www.aca.go.ke>.

United Nations Environmental Programme Green Customs Secretariat , 'The Green Customs Initiative –Customs Protecting the Environment', available at <http://www.greencustoms.org>.

University of Alicante, 'Guide to border enforcement of IPRS in the EU', Available on <http://www.transknowlia.org>.

Viviana Muñoz Tellez, 'The World Customs Organization: Setting New Standards of Intellectual Property Enforcement through the Back Door?', *South Bulletin: Reflections and Foresights* (Issue 13, 16 April 2008) Available at <http://keionline.org>.

WCO and UNCTAD, 'Risk management in customs procedures', Technical Note No. 12 2008 available at <http://r0.unctad.org>.

WCO', Model provisions for national legislation to implement fair and effective border measures consistent with the agreement on trade-related aspects of Intellectual Property Rights, available at <http://www.ecap-project.org>.

Widdowson D, 'The changing role of customs-Evolution or revolution', *World Customs Organization Journal*, Vol 1, 1. Available at <http://worldcustomsjournal.org>

Web sites

<http://aei.pitt.edu>.

<http://www.aseansec.org>

<http://ec.europa.eu>.

<http://www.easternip.com>.

<http://www.kra.go.ke>.

<http://ec.europa.eu>.

<http://plato.stanford.edu>

<http://www.wcoomd>

Thesis

Widdowson D, '*Intervention by exception, a study of the use of risk management by customs authorities in the international trading environment*, a thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy at the University of Canberra September 2003.

Speech

Wako A, *Promoting Better Legislation and Enforcement of Intellectual Property Rights in Kenya*, Key note address during the third global congress on combating counterfeiting and piracy at the international conference centre in Geneva, Switzerland on January 30 2007.

Conference paper

WCO, Intellectual property rights protection and enforcement: a priority for customs administrations in developing countries? a paper presented by Ghana customs administration to the 12th WCO regional conference held in cameroun. Available at <http://www.wcoomd.org>

APPENDIX I

THE AGREEMENT ON TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS)

SECTION 4: SPECIAL REQUIREMENTS RELATED TO BORDER MEASURES

Article 51

Suspension of Release by Customs Authorities

Members shall, in conformity with the provisions set out below, adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. Members may enable such an application to be made in respect of goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met. Members may also provide for corresponding procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories.

Article 52

Application

Any right holder initiating the procedures under Article 51 shall be required to provide adequate evidence to satisfy the competent authorities that, under the laws of the country of importation, there is *prima facie* an infringement of the right holder's intellectual property right and to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities. The competent authorities shall inform the applicant within a reasonable period whether they have accepted the application and, where determined by the competent authorities, the period for which the customs authorities will take action.

Article 53

Security or Equivalent Assurance

1. The competent authorities shall have the authority to require an applicant to provide a security or equivalent assurance sufficient to protect the defendant and the competent authorities and to prevent abuse. Such security or equivalent assurance shall not unreasonably deter recourse to these procedures.

2. Where pursuant to an application under this Section the release of goods involving industrial designs, patents, layout-designs or undisclosed information into free circulation has been suspended by customs authorities on the basis of a decision other than by a judicial or other independent authority, and the period provided for in Article 55 has expired without the granting of provisional relief by the duly empowered authority, and provided that all other conditions for importation have been complied with, the owner, importer, or consignee of such goods shall be entitled to their release on the posting of a security in an amount sufficient to protect the right holder for any infringement. Payment of such security shall not prejudice any other remedy available to the right holder, it being understood that the security shall be released if the right holder fails to pursue the right of action within a reasonable period of time.

Article 54

Notice of Suspension

The importer and the applicant shall be promptly notified of the suspension of the release of goods according to Article 51.

Article 55

Duration of Suspension

If, within a period not exceeding 10 working days after the applicant has been served notice of the suspension, the customs authorities have not been informed that proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or that the duly empowered authority has taken provisional measures prolonging the suspension of the release of the goods, the goods shall be released, provided that all other conditions for importation or

exportation have been complied with; in appropriate cases, this time-limit may be extended by another 10 working days. If proceedings leading to a decision on the merits of the case have been initiated, a review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period, whether these measures shall be modified, revoked or confirmed. Notwithstanding the above, where the suspension of the release of goods is carried out or continued in accordance with a provisional judicial measure, the provisions of paragraph 6 of Article 50 shall apply.

Article 56

Indemnification of the Importer and of the Owner of the Goods

Relevant authorities shall have the authority to order the applicant to pay the importer, the consignee and the owner of the goods appropriate compensation for any injury caused to them through the wrongful detention of goods or through the detention of goods released pursuant to Article 55.

Article 57

Right of Inspection and Information

Without prejudice to the protection of confidential information, Members shall provide the competent authorities the authority to give the right holder sufficient opportunity to have any goods detained by the customs authorities inspected in order to substantiate the right holder's claims. The competent authorities shall also have authority to give the importer an equivalent opportunity to have any such goods inspected. Where a positive determination has been made on the merits of a case, Members may provide the competent authorities the authority to inform the right holder of the names and addresses of the consignor, the importer and the consignee and of the quantity of the goods in question.

Article 58

Ex Officio Action

Where Members require competent authorities to act upon their own initiative and to suspend the release of goods in respect of which they have acquired *prima facie* evidence that an intellectual property right is being infringed:

(a) the competent authorities may at any time seek from the right holder any information that may assist them to exercise these powers;

(b) the importer and the right holder shall be promptly notified of the suspension. Where the importer has lodged an appeal against the suspension with the competent authorities, the suspension shall be subject to the conditions, *mutatis mutandis*, set out at Article 55;

(c) Members shall only exempt both public authorities and officials from liability to appropriate remedial measures where actions are taken or intended in good faith.

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.

Article 60

De Minimis Imports

Members may exclude from the application of the above provisions small quantities of goods of a non-commercial nature contained in travellers' personal luggage or sent in small consignments.