



Chain reaction

Venable's **Jacqueline Levasseur Patt**, **Justin E Pierce** and **Elissa B Reese** explain how brand owners can secure supply chains to prevent product loss

The pervasiveness of the global counterfeiting problem cannot be underestimated. Global counterfeit statistics are astounding, with sales ranging between an estimated \$200bn and \$600bn per year, comprising between 2.5% and 7% of all worldwide trade. It goes without saying that counterfeits pose an enormous threat to brand owners as they:

- Diminish brand equity by infiltrating the market with often shoddy goods marked with name brands;
- Cause potential liability, particularly if the counterfeit products are of a lower quality than the genuine goods;
- Create a loss of control over the brand both internationally and domestically; and
- Can result in significant lost profits for brand owners.

Adding to the ubiquity of global counterfeiting are several complexities that brand owners must take into account. First, the prevalent use by customers of online sales platforms has created an industry of covert border crossing that is difficult to track and does not lend itself to routine customs inspections. Second, while anonymity has always been a significant issue in the counterfeiting arena, the widespread use of the internet to distribute counterfeit goods heightens the problem. Third, in April of this year, US Customs and Border Protection published new rules governing how it will process goods suspected of being counterfeit. The new rules, while offering added protection against counterfeits, also allow importers of suspected counterfeit goods the chance to prove that the goods are legitimate before any information is shared with rightsholders. Thus, the new rules add another layer of complexity for businesses in combating the counterfeiting problem.

One of the more insidious ways counterfeit products enter the market is through a brand

owner's legitimate supply chain. The supply chain is generally defined as the system of organisations, people, technology, activities, information, and other resources that are involved in moving a product or service from a supplier to the customer. Often times, counterfeiters and even unscrupulous distributors will introduce counterfeit products at vulnerable points within the supply chain. This can happen in a number of ways, but we will highlight two particularly frequent examples.

First, a manufacturer of electronic appliances may typically purchase integrated circuits (chips) from various suppliers in order to get the most competitive price and to ensure access to alternative sources of critical parts during times when demand for their products increase. This manufacturer purchases chips from low-cost high-volume suppliers. Unbeknownst to the manufacturer, this supplier offers the lowest prices because its chips are counterfeit. The manufacturer does not perform adequate background checks on this new supplier, nor does it perform sufficient quality checks on the chips; and unwittingly includes these counterfeit chips into products bound for unsuspecting consumers. Months later, the manufacturers receive hundreds of calls and product returns from irate customers upset with faulty appliances that overheat, malfunction and stop working within days of purchase.

Second, a fashion apparel maker (or brand) sells different labels of clothing to various distributors. These distributors, after a markup, resell the apparel to various retail stores that in turn, after another markup, sell the apparel to consumers. An unscrupulous and enterprising distributor purchases legitimate clothing from the fashion apparel maker, but also purchases cheaper counterfeit clothing that looks similar to that provided by the fashion brand. The distributor then mixes in the counterfeit

clothing with legitimate clothing and is now able to sell more apparel at the markup price to retailers, and pockets the additional margin made from the resale of cheap counterfeit apparel. Eventually, discriminating customers notice a drop in the quality of the fashion brand's apparel and sales begin to decrease as disgruntled high-end customers move on to other fashion brands instead.

As you can see in both of these situations, counterfeits can wreak severe havoc on brand owners' bottom line and brand image. Further, brand owners may face additional liabilities due to harm or injuries caused by counterfeit or substandard components. In today's world of global trade, it is critical to keep a close eye on and scrutinise your business partners, suppliers, distributors and affiliates.

Thus, securing supply chains is a vital component of any successful global anti-counterfeiting strategy. To that end, there are four best practices for rightsholders to help protect against counterfeiters penetrating the supply chain:

- Secure IP rights, particularly in key jurisdictions;
- Adequately vet all parties within the supply chain;
- Establish and carry out routine procedures to protect against counterfeiting within the supply chain; and
- Record registered IP with customs.

Secure IP Rights

Securing intellectual property rights in domestic and international markets is the foundation of any anti-counterfeit programme. Without first securing relevant intellectual property rights, there would be nothing to enforce against counterfeiters. It is a good idea to start with an IP audit to review the scope of any relevant patent, trademark and copyright rights. The audit should include a review of

protection in countries in which the company sells, manufactures and distributes products as well as ports of entry.

Once you have uncovered the holes in your IP portfolio, work with counsel to fill in those holes. With respect to trademark rights, brand owners should conduct trademark searches to ensure no third party has beaten them to the trademark office. Many countries award trademark rights to the "first to file" trademark applications for a given mark and in many countries no trademark rights are recognised without registration. Brand owners must be cognisant of the possibility that a third party (even a trusted third party like a manufacturer or distributor) may register the brand owner's IP in bad faith. Regaining IP rights in some jurisdictions from a prior filer is an uphill battle and in some cases, the rightful brand owner becomes the infringer.

To ensure adequate protection of trademarks, logos, and designs, companies should file new applications for registration as soon as possible. Further, it is important not only to ensure that your trademarks are registered, but that the registration covers the products of interest. Lastly, if the trademarks are used through a licensee, companies should check local rules to determine if recordation of licences is required.

While securing trademark rights is often top of mind to brand owners, registering trade dress, designs, patents and design patents and copyrights can be equally useful in the fight against counterfeiting. This is particularly true in countries like China, which is one of the few countries outside of the US that provides for the registration of copyrights.

Vet all parties within the supply chain

Verifying the reputability of all parties within the supply chain is vital to helping protect against counterfeiting. There are a number of ways to do so. First, rightsholders can use business information agencies and investigative companies to assess the legitimacy of suppliers, subcontractors, manufacturers, and distributors. Second, through the advice of experienced counsel, rightsholders should take care to ensure that all contracts with third parties within the supply chain are strong and comprehensive under the laws of the forum jurisdiction. Furthermore, due consideration should be given to the use and language of any IP licensing through the advice of counsel. Lastly, if you are purchasing finished products from a supplier, it is key to establish agreements providing clear guidance about what you will expect to receive and specifically indicate that you will only accept genuine, eg, non-counterfeit goods.

Establish and carry out routine procedures

Detecting criminal activity early plays a vital role in protecting one's brand and supply chain. To that end, brand owners should establish a number of routine procedures to prevent and detect counterfeiting. First, it is important that products and packaging are designed so that they cannot easily be copied. To prevent counterfeiting throughout the supply chain, many companies are now investing in advanced labeling systems (such as holographic stamping) that are difficult to replicate and easily identifiable by customs. At a minimum, brand owners should incorporate their house trademark into all key components of their products and packaging. Secondly, businesses can regularly utilise "mystery shopping" practices to buy back products that they originally sold to distributors to verify that: (a) the price is correct; and (b) the products and packaging are authentic. Thirdly, brand owners should conduct routine, and if possible unannounced, inspections of manufacturers, suppliers, distributors, and authorised retailers to confirm that these players are operating in accordance with their contractual agreements. Fourthly, brand owners should educate employees regarding IP rights, relevant IP laws, key concerns regarding counterfeiting, and the measures that the business is taking to prevent/detect counterfeiting. In conjunction, it is wise for businesses to establish a formal process for employees and affiliates to report counterfeiting suspicions or other related concerns. Following these initial steps will help businesses to prevent and, if not prevent, quickly detect counterfeiting issues within the supply chain.

Record registered IP with customs

Once brand owners have registered all relevant IP in key jurisdictions, they should likewise record the registered IP with customs in those jurisdictions. This step is crucial because it will allow customs to identify, seize, and destroy infringing products. Customs recordation can include certain nuances if, for example, gray market goods are an issue as well as counterfeit goods. Thus, engaging experienced counsel to help with the recordation process is wise.

Brand owners should also invest in educating US and foreign customs in key jurisdictions on how to discern counterfeit products from genuine goods. There are two key components of customs education:

- To regularly provide customs with updated product identification manuals, which experienced counsel can help brand owners to create; and
- To schedule and participate in training sessions with customs, providing customs with various types of information, including: (a) the primary characteristics that set apart the brand owner's genuine goods from counterfeit goods, eg, trademark placement, holographic labels, etc; and (b) known or suspected distribution channels of counterfeit goods.

Summary

In the current global environment where counterfeiting proliferates, securing the supply chain is vital for any comprehensive anti-counterfeiting strategy. Indeed, protecting against counterfeits begins with guarding the trusted supply chain, that crucial line from manufacturer to customer.

Authors

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Justin Pierce's practice covers a wide range of intellectual property matters, including patent litigation, trademarks and brand protection, anti-counterfeiting, copyrights, design rights, trade secrets, licensing, rights of publicity, domain name and social media disputes, and international government affairs work relating to intellectual property matters.

Elissa Brockbank Reese has significant litigation experience involving various intellectual property rights including: Lanham Act false advertising, trademark infringement, dilution and unfair competition; copyright; cybersquatting and domain name disputes; social networking issues; FTC Act; state deceptive trade practices; rights of publicity; trademark opposition and cancellation proceedings; design and utility patent infringement; and Digital Millennium Copyright Act matters.