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Anti-counterfeiting 2012



United States

Contributing firm **Venable LLP**

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Legal framework

A growing number of US laws and pending pieces of legislation seek to address the problem of counterfeiting, but the Lanham Act (the Trademark Act of 1946, 60 Stat 427 (July 5 1946), codified as amended at 15 USC §1051 and following) is the primary federal statute that empowers brand owners with a civil cause of action to use against counterfeiters. The government, concerned about the threat of counterfeiting to public safety and to US businesses dealing with IP theft, has taken a number of steps to help brand owners over the years. In the past three decades, Congress has passed four laws providing criminal and civil remedies for counterfeiting:

- the Trademark Counterfeiting Act of 1984;
- the Anti-counterfeiting Consumer Protection Act of 1996;
- the Stop Counterfeiting in

Manufactured Goods Act of 2006; and

- the Prioritising Resources and Organisation for Intellectual Property Act of 2008 (the Pro-IP Act).

The Trademark Counterfeiting Act first criminalised counterfeiting, and the other acts increased penalties for counterfeiting, increased the power of US Customs and Border Protection (CBP) to fight counterfeit activities and expanded the definition of ‘counterfeit goods’ to include labels and other forms of packaging not affixed to the goods.

In order to address the problems caused by increased online distribution of counterfeit goods, some members of Congress introduced legislation in 2011 targeting ‘rogue websites’ – unauthorised sites operating outside the United States that directly advertise to US citizens, mimic the legitimacy of brand owner sites and often collect online payments through established credit card companies. In particular, two proposed legislative acts garnered significant attention:

- the Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act (the Protect IP Act), introduced in the Senate in May 2011; and
- the Stop Online Piracy Act, introduced in the House of Representatives in October 2011.

The definition of a ‘counterfeit mark’ under US law remains unchanged – it is one that is “identical with or substantially indistinguishable from” a mark in use and registered on the Principal Register of the US Patent and Trademark Office (USPTO) for the same goods to which the alleged infringer applied the mark. Grey-market goods (or parallel imports), which are goods that are genuine in, and directed towards, other jurisdictions but unauthorised in the United States, are not included in the definition of ‘counterfeit goods’. However, brand owners may still pursue grey marketers for infringement under other provisions of the Lanham Act and various other statutes.

Border measures

Customs and Border Protection

The CBP plays a significant role in the effort to keep counterfeit goods from entering the United States. It is the federal law enforcement agency of the US Department of Homeland Security charged with regulating and facilitating international trade, collecting import duties and enforcing trade, customs and immigration regulations. And it is often the first shield wielded on behalf of brands in the fight against counterfeits.

For a brand owner to use this shield, it must record its trademark registrations with the CBP or obtain an exclusion order from the International Trade Commission. As a rule, it is much more efficient and cost-effective to record a mark at the CBP (\$190 per class) than to initiate the litigation necessary for the International Trade Commission to grant an exclusion order. A brand owner may also record its unregistered trade name if it has been in use for at least six months. However, this does not apply to unregistered trademarks or trade dress, which cannot be recorded at the CBP. Brand owners can further enhance the effectiveness of the CBP in combating counterfeiting of their brands by funding cooperation and training efforts with the CBP. Specifically, brand owners should provide the CBP with product identification manuals to help inspectors to discern counterfeit from authentic goods. These manuals should, at a minimum, list the company's relevant intellectual property, registration and recordation information, physical characteristics of the genuine goods, and information concerning authorised distribution channels and any known unauthorised distributors, exporters or importers.

With brand owners' support and cooperation, the CBP can more effectively use its power to exclude, detain or seize counterfeit goods. The CBP may also levy fines for importing counterfeit goods. Upon identification of suspected counterfeit goods, the CBP will detain the goods for 30 days and notify the brand owner within the first five days. The brand owner will then have 30 days to provide information confirming whether the goods are authentic or counterfeit; otherwise, the CBP will formally seize the goods and they will be subject to forfeiture.

On January 9 2012 CBP released statistics showing nearly 25,000 seizures of counterfeit goods, with a total domestic value of approximately \$178 million. The CBP increased enforcement against

products posing health and safety risks, which resulted in a 44% increase in the number of seizures of health and safety products (eg, pharmaceuticals and perfumes). Despite the significant increase in the number of seizures, the domestic value for seizures in 2011 decreased by 5%. The CBP attributed this shift to the increased use of international mail, express courier and consolidated shipping services to import counterfeit and pirated goods purchased on the Internet (CBP IP Rights Fiscal Year 2011 Seizure Statistics).

International Trade Commission

The International Trade Commission (ITC) is a quasi-judicial federal agency that is authorised to act against "unfair methods of competition and unfair acts in the importation of articles into the United States" (19 USC §1337, referred to as Section 337). The ITC has the power to issue:

- a general exclusion order against all infringing products (including entities not party to the investigation);
- a limited exclusion order against specific respondents;
- a cease and desist order directed against specific parties; and
- preliminary relief while an action is pending (19 USC §1337 (d)-(f)).

Owners of unregistered trademarks and trade dress, who are unable to take advantage of the protection provided by the CBP to owners of registered marks, can rely upon Section 337 orders as a brand protection mechanism. Further, there are a number of reasons why owners of registered marks also find it useful to seek a Section 337 order. The ITC provides brand owners with litigation advantages not found in federal courts. For instance, there are more remedies available and the schedule for discovery, motion practice and hearings before the judges are expedited. Moreover, Section 337 does not require personal jurisdiction over foreign manufacturers, and instead permits *in rem* jurisdiction over the infringing goods.

Criminal prosecution

Enhanced criminal penalties for counterfeiting are generally seen as an important tool in deterring and curbing the harmful effects of counterfeiting. The Pro-IP Act of 2008 increased the federal criminal penalties for counterfeiting in the United States. Both the federal government and many US states have laws criminalising counterfeiting; but only the federal government can prosecute federal criminal

counterfeiting law, while each state can prosecute its own state criminal counterfeiting law.

The criminal penalties for intentional trafficking in counterfeit goods in violation of the Trademark Counterfeiting Act are set out in 18 USC §2320. The law provides penalties for first-time offenders of up to 10 years in prison and a \$2 million fine for an individual, or a \$5 million fine in the case of a corporation or other entity. For repeat offenders, it provides penalties of up to 20 years in prison and a \$5 million fine for an individual, or a \$15 million fine for a corporation or other entity. If one is convicted of knowingly or recklessly causing or attempting to cause death when violating the criminal counterfeiting laws, the maximum penalty can include life imprisonment. A federal court may also order the forfeiture of any proceeds or property gained from trafficking counterfeit goods, or any property used to commit trafficking. A defendant can be ordered to pay restitution to any persons directly or proximately harmed by trafficking of counterfeit goods.

The law defines the term 'trafficking' of counterfeit goods broadly to include the manufacture, import, export, holding and sale of counterfeit products. Further, the law includes a clear prohibition against transshipment of goods through the United States, specifically stating that "no goods or services, the trafficking in of which is prohibited by this section, shall be transshipped through or exported from the United States".

Civil enforcement

Brand owners combating counterfeiting of their goods or services have no private right of action to enforce the provisions of the criminal counterfeiting law. However, they are often encouraged to inform the appropriate federal, state or local agency of the distribution of counterfeit goods and then to cooperate with the prosecution.

Brand owners can file a federal civil action under the Lanham Act against infringers or parties that knowingly help an infringer (eg, a landlord that knowingly rents a storefront to a seller of counterfeit goods). The Lanham Act provides a number of remedies to the prevailing trademark owner, including treble damages/profits (15 USC §1117), statutory damages, attorneys' fees, costs and the destruction and recall of counterfeit goods. However, in the Ninth Circuit, attorneys' fees may be excluded when a plaintiff elects to recover statutory damages instead of damages for

counterfeiting under Section 1117(a). When plaintiffs elect statutory damages instead of actual damages or profits, they can receive an award of between \$1,000 and \$200,000 per counterfeit mark per type of goods or, in cases of wilful infringement, up to \$2 million.

Given the illegal and transient nature of counterfeiting operations, it is hard for brand owners chasing counterfeiters to discover the true identities and locations of counterfeiters and their infringing goods. If counterfeiters receive advance warning of a civil action by the plaintiff, as is typical procedure in US civil litigation, it is likely that they will destroy evidence and hide assets, business documents and counterfeit goods in order to escape liability. The anti-counterfeiting provisions of the Lanham Act (15 USC §1116) provide for *ex parte* action, allowing brand owners to appear before a judge in federal court unilaterally and seek an injunctive order for a surprise seizure of a counterfeiter's goods and records. This is an important and extraordinary remedy that, without notice to the defendant, allows for the seizure of counterfeit goods before any hiding or redistribution occurs.

Anti-counterfeiting online

The sale of counterfeit goods by illicit online retailers has been estimated to have reached as high as \$135 billion in 2011. Continued concerns about the negative impact of online piracy and IP theft on US businesses and jobs led various members of Congress to introduce two similar pieces of legislation, in the Senate and House, designed to shut down rogue websites.

First, on May 12 2011 a group of senators introduced the Protect IP Act in the Senate. This bill is designed to combat online piracy and provides enhanced enforcement against rogue websites. Although the bill passed the Senate Judiciary Committee and received support from various content businesses and industry associations, it also had a number of opponents. A group of internet and social media companies, electronic privacy advocates and others in academia strongly opposed the legislation and voiced concern that the law in its present form would pose privacy issues, harm the integrity of the Internet, hurt economic growth and hamper innovation in legitimate online services. Recently, congressional opponents of the Protect IP Act introduced a bill called the Online Protection and Enforcement of Digital Trade Act (OPEN Act) as an alternative.

Second, on October 26 2011, a group of

representatives introduced the Stop Online Piracy Act in the House. This bill, similar to the corresponding Protect IP Act in the Senate, is designed to combat online piracy and provides enhanced enforcement against rogue websites. Many of those who oppose the Protect IP Act also oppose the act for the same reasons.

Both pieces of legislation would authorise the US Department of Justice to seek court orders *in rem* against rogue websites dedicated to infringing activities. The Stop Online Piracy Act, in light of the criticism received by the Protect IP Act, is more narrowly drafted in certain aspects. Its definitions of 'payment network provider' and 'internet search engine' are narrower than the corresponding provisions in the Protect IP Act. Further, unlike the Protect IP Act, the Stop Online Piracy Act requires court approval for action against search engines. After obtaining a court order under the act, the US attorney general could block US-directed internet service providers, advertising networks and credit card payment processors from doing business with any sites found to infringe federal criminal IP laws. Further, the attorney general could also prevent search engines from displaying links to the sites.

At the time of writing, both the Protect IP Act and the Stop Online Piracy Act have met stiff resistance, but are still pending.

Preventive measures/strategies

Counterfeiting is a complex and dynamic problem, and counterfeiting networks often match the sophistication of the industries and companies that they target. Accordingly, there is no 'cookie cutter' solution to address the counterfeiting challenge that many companies currently face. Each company is unique, and each company requires an anti-counterfeiting and brand protection strategy that is tailored to meet its needs in the marketplace. Companies seeking to protect their brands should, at a minimum, consider implementing the following best practices:

- Conduct an internal brand protection audit – to assess how well your key brands and products are secured in terms of legal protection, security measures, supply chain and distribution through authorised versus unauthorised channels.
- Register key trademarks and trade dress in countries where your product is sold (or will be sold), and in countries where your product is manufactured or assembled.
- Record key registered trademarks and trade dress and unregistered trade

names with the CBP (when possible).

- Provide the CBP with information on known or suspected distribution or import of counterfeits of your products or their components. Regularly provide the CBP with updated product identification manuals and arrange for training sessions to educate inspectors on how to discern counterfeits from your authentic goods.
- Routinely monitor unauthorised use of your brands. Establish surveillance of your distribution channels.
- Select and use anti-counterfeiting technology that is:
 - appropriate for your product and business model (eg, radio-frequency identification tags, holograms, watermarks, covert markings or inks); and
 - not burdensome to use for product authentication.
- Educate employees and sales forces about how critical IP protection is to the company's success. Provide training to employees and sales forces to help them better recognise and respond to counterfeiting issues.
- Seek out and hire experienced investigators to build enforceable cases against networks that counterfeit your goods.
- Police the Internet and online marketplaces for sale of counterfeit goods. Make full and regular use of the procedures offered by e-commerce sites and online marketplaces to de-list or take down infringing listings or websites. [WTR](#)

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Justin Pierce's practice covers a broad spectrum of IP 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. Mr Pierce is a seasoned anti-counterfeiting and brand protection professional who provides strategic counsel to clients, ranging from start-ups to major multinational companies, facing IP theft issues. Mr Pierce offers a wealth of practical experience and solutions to clients. As former in-house IP counsel and head of trademarks and brand protection at Sony Ericsson, he developed and managed global trademark and brand protection strategy for the joint venture. He now advises companies on how to implement and optimise global brand protection strategy. Mr Pierce serves on the International Trademark Association Anti-counterfeiting Committee, North American Sub-committee. He graduated with a JD from George Washington University and with a BS from the United States Military Academy, West Point, New York.



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Marcella Ballard's practice covers a wide range of IP matters, including trademark, copyright, trade secret, privacy rights, licensing disputes, unfair competition, contract and business tort claims. She has represented clients in bench and jury trials and arbitration hearings throughout the United States and in the United Kingdom. Ms Ballard's exposure to a variety of industries positions her to effectively meet her clients' needs, no matter what their business focus. Ms Ballard is a veteran in prosecuting and defending motions for emergency injunctive relief, and has acted as lead counsel in anti-counterfeiting actions around the country in which *ex parte* seizure and temporary restraining order relief was obtained. She previously served as assistant district attorney for New York State, Bronx County, where she tried over 15 jury trials to conclusion and had a near-perfect record of obtaining convictions for the state.