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Anti-counterfeiting strategies in the United States

Counterfeiting is a critical problem for trademark and copyright owners ('IP owners') affecting all industries, from pharmaceuticals and medical devices to electrical and auto products, toys and fashion items. To effectively tackle the problem, IP owners must adopt coordinated international anti-counterfeiting strategies in several countries, including China. While the sale of counterfeits cannot be entirely stopped, preventative measures and enforcement strategies are available to obtain some protection against the onslaught of counterfeit goods. This article discusses anti-counterfeiting strategies available within the US.¹

Educating consumers – public awareness campaigns

IP owners can start to prevent counterfeiting by involving their marketing and public relations units in the cause. One important step that IP owners can take is to inform consumers of the problems associated with counterfeit goods and to encourage them to report counterfeits. Counterfeiting is commonly associated with lower quality products, public health and safety concerns (especially in the territory of counterfeit pharmaceuticals and automotive parts), depletion of US jobs, and has links to terrorism and organised crime. Where appropriate, IP owners can use targeted advertising campaigns and training seminars to educate the public in general, and their customers in particular, as to the negative consequences of counterfeiting.

Registering trademarks and copyrights

Registration of all protectable trademarks and copyrights is critical in order to successfully enforce IP rights against the sale of counterfeit products.² Federal registration confers the ability to record the mark with US customs, which can prevent the importation into the US of infringing and counterfeit goods.

As with a registered trademark, federal copyright registration enables the owner to record the copyright work with US customs to help prevent importation of counterfeits. Copyright registration is also a prerequisite to filing a copyright infringement suit based on works of US origin and can serve as prima facie evidence of the validity of the copyright. Prompt registration for both US and foreign originating copyright works is also necessary in order to obtain statutory damages and attorney's fees.

Working with US customs

US customs, as part of the Department of Homeland Security, provides border security and monitors the import and export of goods. Customs devotes substantial resources to protecting IP rights by targeting, detaining, seizing and forfeiting shipments of goods that infringe on those rights, so it is smart practice to take advantage of these efforts.

After securing a federal trademark or copyright registration, IP owners should record their intellectual property with US customs. When inspecting goods entering the United States, customs agents access a recordation system and determine whether the goods may violate any recorded trademark or copyright. Recording trademarks and copyrights gives US customs greater statutory and regulatory authority to detain and/or seize infringing imported goods.

When recording a trademark or copyright with US customs, the IP owner must provide contact information of someone who will be responsive to communications from customs agents. US customs officers are generally willing to e-mail digital photographs of suspect shipments to the contact person to help determine whether they are genuine or counterfeit.³ It is important for IP owners to be responsive to communications received from US customs, regardless of the quantities of counterfeit goods involved. Counterfeiters often ship goods in small quantities to minimise the risk of detection. IP owners should not tolerate importation of such shipments, as this will only encourage further counterfeit activities.

Customs procedure for preventing imports of trademark counterfeits/infringing goods

Imported articles bearing a mark or name 'copying or simulating' a recorded mark or name can be denied entry into the United States. These infringing articles are detained by customs for 30 days during which time customs is authorised to provide information to the owner of the allegedly infringing product to help determine whether infringement has occurred.

During the 30-day detention period, the importer may secure release of the products by showing that:

- the foreign and US marks are owned by the same business or in a parent-subsidiary relationship or are under common ownership or control;
- the mark was applied under authorisation of the IP owner;
- the mark will be removed or obliterated; or
- the US recordant gave written consent.

If an importer receives a notice of exclusion, it has the following three administrative remedies:

- obliteration of the trademark;
- initiation of a judicial forfeiture proceeding; and
- petition for discretionary remission or mitigation and appeal to the US Court of International Trade.

Customs procedure for preventing imports of copyright counterfeits/infringing goods

When the articles involve clear infringement, customs may seize any articles it determines are infringing or that the importer does not deny are infringing.

When the articles involve suspicions of infringement, customs notifies the importer that the goods have been detained and advises the importer that unless a statement is filed within 30 days the goods will be subject to seizure and forfeiture. If the importer files a timely statement denying the goods are infringing, customs sends a sample of the allegedly infringing goods to the copyright owner. Customs also notifies the copyright owner that the goods will be released to the importer unless the copyright owner files a written demand for exclusion within 30 days accompanied by a bond sufficient to cover any damages to the importer in the event customs determines the goods are non-infringing.

The International Trade Commission

The US International Trade Commission ('ITC') investigates claims of trademark, copyright and patent violations through imported goods. It has the authority to issue a general exclusion order against all infringing products or a limited exclusion order against specific parties, which will then be enforced by US customs. The ITC also may issue a cease and desist order against specific parties to prevent the sale of infringing products already imported. Owners of unregistered trademarks may also seek such exclusion orders and cease and desist orders. Actions before the ITC generally do not require personal jurisdiction over foreign manufacturers because the ITC has *in rem* jurisdiction over the goods. However, issuance of a cease and desist order requires personal jurisdiction over specific parties. The ITC may grant preliminary relief while an action is pending.

Pursuing civil lawsuits

Under the Trademark Act of 1946, also known as the Lanham Act, a plaintiff can bring causes of action for federal trademark infringement and/or federal counterfeiting. A defendant will be liable for trademark infringement when it uses a counterfeit of a registered mark in commerce (on goods or on labels or packages) and such use is likely to cause confusion or deceive the public.⁴

To establish federal trademark counterfeiting and to receive an award of up to treble damages as provided in 15 USC section 1117(b), the plaintiff must additionally prove intent, that is, that the defendant intentionally used the mark knowing that it was counterfeit. Many jurisdictions also recognise 'willful blindness' as a way of proving intent. Willful blindness can be established by showing the purposeful failure to heed warning signs.⁵

Civil remedies in federal trademark infringement and/or counterfeiting cases include the following:

- injunctive relief ordering the defendant to stop selling counterfeit goods and impounding all the infringing goods;
- actual damages of (i) an accounting of the infringer's profits, (ii) damages sustained by the trademark owner, and (iii) the costs of bringing the lawsuit;
- alternative to actual damages, statutory damages (i) between US\$500 and US\$100,000 per counterfeit mark per type

of goods or services sold and (ii) if the court finds that the counterfeiting was willful, then up to US\$1m per counterfeit mark per type of goods or services sold.⁶ Practically speaking, the statutory damages provision is the strongest tool for trademark owners because alleged counterfeiters often fail to respond to lawsuit complaints and those that do rarely keep accurate records of their illegitimate sales.⁷

Under the Lanham Act, courts shall also award treble damages and attorneys' fees where use of a counterfeit trademark was intentional, knowing it was counterfeit.⁸ If a party chooses statutory damages over compensatory damages, however, they may be precluded from recovering attorneys' fees.⁹

Under the Copyright Act, the copyright owner can seek actual damages and any additional profits of the infringer or, if the copyright owner elects, statutory damages.¹⁰ The court also has the discretion to award attorneys' fees.¹¹

Using other enforcement options: criminal actions and RICO coverage

In many cases, criminal charges can deter counterfeiters more effectively than civil charges because the penalties for criminal infringement can be quite severe.

The elements of criminal trademark infringement under 18 USC section 2320 are:

- the defendant trafficked or attempted to traffic in goods or services;
- the trafficking or attempt to traffic was intentional;
- the defendant used a counterfeit mark on or in connection with such goods or services; and
- the defendant knew that the mark was counterfeit.

18 USC section 2320 also prohibits trafficking in labels and packaging to which counterfeit marks are knowingly applied and permits the forfeiture and destruction of counterfeit goods and the seizure of property and assets derived from counterfeiting.

Criminal trademark infringement can carry a fine of up to US\$2m and up to ten years imprisonment for an individual and up to US\$5m for a corporation.¹² Criminal copyright infringement can carry of fine up to US\$250,000 and up to three to five years' imprisonment.¹³

Criminal penalties for counterfeiting are also available under the Racketeer Influenced and Corrupt Organizations Act ('RICO').

Specifically, RICO predicate acts include the following offences:

- criminal use of counterfeit labels for phonorecords, computer programs, and motion pictures;
- criminal copyright infringement; and
- criminal trademark counterfeiting under 18 USC section 2320.

A private right of action is now provided in which a copyright owner can bring a civil action under the RICO provisions; a predicate act is extended to all literary, pictorial, sculptural or visual art works; and coverage is extended to those who use an illicit label, which is defined as a genuine certificate or similar labelling component that is used by the copyright owner to verify that a copy of a work is not counterfeit.

Importantly, RICO coverage provides for increased penalties such as imprisonment and forfeiture of non-monetary assets including property, equipment and storage facilities of those involved in criminal counterfeiting enterprises.

Conclusion

Aggressive enforcement of IP rights is critical to reducing high levels of counterfeiting. Such enforcement requires prior registration and recordation of relevant trademarks and copyrights in the United States and other countries. By developing an ongoing, coordinated international anti-counterfeiting programme, including registration and recordation of IP rights in the United States, IP rights owners can obtain positive results against counterfeiters of popular products sold in the United States.

Notes

- 1 The following US laws address anti-counterfeiting efforts: The Lanham Act – 15 USC sections 1051 *et seq.*; The Copyright Act – 17 USC sections 101 *et seq.*; The Stop Counterfeiting in Manufactured Goods Act of 2006 – 18 USC section 2320 (modifies federal criminal laws to expand the definition of 'trafficking' goods to include not only the goods but also the labels, documents or packaging with counterfeit marks attached to counterfeit goods and criminalises possession with the intent to distribute); The Trafficking in Counterfeit Goods or Services Anti-Counterfeiting Consumer Protection Act of 1996 – 18 USC section 2320 (where a defendant's infringement conduct is willful, the court can award up to US\$1m per counterfeit mark per type of goods or services and also amends RICO by criminalising copyright infringement); Organization for Intellectual Property Act of 2008 – 15 USC section 8101; Trademark Counterfeiting Act of 1984 – 18 USC section 2320 (amends the federal criminal code to make a violation of the Lanham Act a felony and increases civil penalties allowed by the Lanham Act); Racketeer Influenced and Corrupt Organizations