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Combating the sale of counterfeit products in the United States

By **Susan Proffoff** and **Vincent N Palladino**, Fish & Neave IP Group of Ropes & Gray LLP, New York

The sale of counterfeit goods has been reported to represent more than US\$300 billion in sales annually worldwide. It is a global problem that is unlimited in the industries it affects. While the sale of counterfeit CDs, DVDs, designer clothing, watches and handbags has received widespread publicity over the years, the problem has also affected the pharmaceutical, automobile, aeronautical, food and chemical industries, among many others. Implementing an effective programme to combat counterfeiting requires a multi-pronged approach on a global scale. This article discusses strategies for combating counterfeiting in the US. Any such programme, however, must be integrated into worldwide efforts if it is to succeed.

What is a counterfeit?

Counterfeiting is a form of trademark infringement. Under the United States Trademark Act, trademark infringement occurs when a mark is used in a manner that is likely to cause confusion as to the source, sponsorship or endorsement of the product with which the mark is being used. It is not necessary that the pre-existing mark be registered. Nor is it necessary that the marks or the goods be the same. What is important is that the marks be used in a manner that creates a likelihood of confusion.

Counterfeiting, on the other hand, requires the use of a mark that is identical with or substantially indistinguishable from a mark that is registered on the Principal Register of the United States Patent and Trademark Office for the goods covered by the registration. Thus, unlike trademark infringement, counterfeiting applies only to registered marks and the unauthorised use must be of a mark

that is substantially the same as the registered mark, for substantially the same goods as are covered by the registration. When the mark being used is a counterfeit, rather than an infringement, additional remedies are available to the trademark owner.

Identifying counterfeits

There are many ways in which the sale of counterfeit products may come to the attention of a trademark owner. For example, information alerting the owner may arrive inadvertently – through an inquiry from a consumer, through the return of a counterfeit product for service or repair, or through an employee seeing counterfeit products in the marketplace. Ultimately, however, the goal should be to have a systematic way to identify manufacturers and major distributors of counterfeit goods, and focus enforcement efforts on those parties whose activities are sufficiently large to warrant the attention of law enforcement officials and to justify the expense and effort of civil litigation.

Once a trademark owner has reason to believe that its products are being counterfeited, it is prudent to survey the marketplace systematically. The specifics of an appropriate investigation will vary, depending on the industry. Often it is useful to have investigators attend trade shows and showrooms to identify manufacturers and distributors of counterfeit products. A leading trade show often attracts manufacturers and suppliers from around the world and provides a good opportunity to identify manufacturers both inside and outside the United States that may be violating rights in a trademark.

It can also be effective in developing useful information to have an investigator visit appropriate retail stores periodically to determine whether counterfeit products are available to purchasers. Sometimes, these retailers may be willing to identify their suppliers, thereby enabling the trademark owner to move up the distribution chain and

to focus its attention on a distributor having a larger role in the counterfeiting enterprise.

In industries in which counterfeiting is prevalent, trademark owners may join in hiring investigators to work for the group. Investigations on behalf of multiple trademark owners can be a cost effective way of developing useful information. Ultimately, the goal is to identify the major manufacturers and distributors of counterfeit products and take action against the entities that are having the largest impact on the market.

Frequently, counterfeiting networks operate internationally. It is common to find manufacturers in one country, distributors in another and sellers in yet another. Also, as an investigation progresses, the major players in a counterfeiting operation tend to be identified by more than one source. It can be extremely helpful in understanding the relationships among the sellers of counterfeit products to create a database at the beginning of an investigation in which information about each party and its suppliers and customers can be entered and cross-referenced.

Civil enforcement

The Trademark Act provides enhanced remedies for cases involving counterfeiting. In a case for trademark infringement, a prevailing trademark owner can obtain an injunction against future infringement, damages caused by the infringement, defendant's profits attributable to the infringement and the costs of the action. Where the infringement is wilful, the court may treble the award of damages and profits and, in exceptional cases, a plaintiff may recover reasonable attorneys' fees. Damages can be difficult to quantify. Most courts require proof of bad faith before they will award profits. And treble damages and attorneys fees are rarely awarded.

The statute provides far broader remedies against the use of counterfeit marks. Where there is reason to believe that a counterfeiter will move or destroy evidence if notice of the claim were given, the statute allows the court to issue an order without prior notice to the defendant authorising the seizure of all counterfeit products, labels, packaging and related materials, and all documents and business records relating to the manufacturing, sale or distribution of counterfeit products. In addition to removing the counterfeit goods from the stream of commerce, this type of order may provide the trademark owner with valuable information concerning the source of the counterfeit products and the customers to whom they are being sold.

In addition to a seizure order, in a case for counterfeiting, it is mandatory for the court to award either treble the plaintiff's damages or treble the defendant's profits, whichever is greater, together with reasonable attorneys' fees. The plaintiff may elect to recover instead of damages or profits statutory damages ranging from US\$500 to US\$100,000 per counterfeit mark per type of counterfeit product sold. Statutory damages can be increased up to US\$1 million per mark per counterfeit product if the court finds that the counterfeiting was wilful. Because it often is difficult to prove the plaintiff's damages or the defendant's profits, the option to recover statutory damages can be a potent weapon in the arsenal against counterfeiters. The difficulty with any monetary award in this type of case often is collecting the judgment because assets are either hidden or kept overseas where they are difficult or impossible to reach.

Criminal enforcement

Often the most cost-effective way of protecting a trademark against the sale of counterfeit products is to enlist the assistance of law enforcement officials. Law enforcement can assist in fighting trademark counterfeiting at several levels.

It is a federal crime to traffic in goods that bear a counterfeit mark. The federal statute criminalising trademark counterfeiting was recently amended to cover labels, packages and other forms of marking bearing counterfeit marks that are not yet attached to any product. The purpose of this provision is to enable the government to prosecute individuals who make and sell counterfeit labels that are later attached to unmarked goods. Under the amendment, courts have the authority to order the destruction of counterfeit labels, packages and the machines for making them. In addition, under the amendment, unlike in a civil claim for counterfeiting, it is a crime to counterfeit an unregistered trademark. The federal counterfeiting statute provides for fines of up to US\$2 million and prison terms of up to 10 years, or both, for individuals, and fines of up to US\$5 million for business entities, convicted of trademark counterfeiting.

Most states have also made counterfeiting a criminal offence. The specific provisions vary from state to state. For example, some states require a state trademark registration; others require only a registration or a pending application; still others do not require any registration or application. In addition, jurisdictions have

different levels of interest in counterfeiting matters and have different resources available to devote to these types of cases. It is important, therefore, to check the local requirements before making a decision concerning where to proceed.

Local law enforcement can become involved at the state level, through the state attorney general's office, or at the local or municipal level. Often, the local police are the most willing to assist. A police raid can lead to the seizure of counterfeit merchandise and the counterfeiter's paper and electronic business records, which may contain valuable information concerning the identities of other entities involved in counterfeiting.

As a trademark owner, it is worth keeping in mind that the police and prosecutors have many competing interests seeking their assistance. They are more likely to assist in a trademark counterfeiting case when the facts are well developed and there is little question that a prosecution will be successful. A thorough investigation with up to date information concerning the identities of the individuals who are the targets, the counterfeit products being sold or distributed, the quantities involved and any additional relevant information increase the likelihood that the police and prosecutors will be willing to take the case. Also, the larger the quantities involved, the more likely a case is to be taken.

There also may be considerations if a counterfeiter does business in more than one jurisdiction. Ideally, in an interstate matter, the Federal Bureau of Investigation and the US Attorney's Office should be contacted. If these agencies cannot handle the matter, the state or local authorities in the affected jurisdictions may be interested in taking the case. Thus, it is possible that agencies in different jurisdictions may need to coordinate their activities.

The procedures and levels of assistance that law enforcement authorities are likely to seek from the trademark owner will vary depending on the jurisdiction and the personalities of the individuals involved. Before becoming involved with law enforcement authorities, a trademark owner should be flexible, but be prepared to work closely with the police and prosecutors if needed to ensure a successful outcome.

Customs

The Department of Customs and Border Protection can be an effective ally in an anti-counterfeiting campaign. Because of information linking the proceeds of trademark counterfeiting with terrorist

operations, customs is particularly interested in assisting trademark owners in taking action against counterfeiting.

Trademarks that are registered on the Principal Register of the Patent and Trademark Office can be recorded with customs. When a trademark is recorded with customs, customs can seize imports of infringing and counterfeit merchandise, and notify the trademark owner when merchandise has been detained. These notices identify the country of origin, importer and exporter and the quantity of counterfeit merchandise seized. Upon the posting of a bond, customs will release a sample of the detained products to the trademark owner for inspection. Often, information gleaned through customs seizures can be a useful supplement to information gained through investigations in the US and foreign countries.

Because customs has thousands of trademarks in its records, it is advisable to meet with customs officials at the ports where counterfeit merchandise enters the country and show them how to identify genuine and counterfeit merchandise. A guidebook showing samples of genuine and counterfeit products can also be helpful. Customs is most effective when its agents are knowledgeable about the issues. Providing customs with information identifying specific manufacturers and importers enables customs agents to flag specific shipments that may contain counterfeit merchandise. The more information customs has, the better able it is to intercept and detain counterfeit goods.

Public education

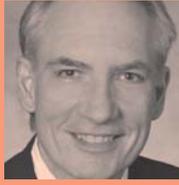
Consumer demand for counterfeit products is an important factor in the growth of the counterfeit economy. Educating consumers about the dangers posed by inherently dangerous counterfeit products and the harm caused by the sale of counterfeit products can be important in stemming demand for illicit products.

Similarly, publicising successful actions taken against counterfeiters may help to discourage others from continuing to sell these products. If counterfeiters become aware that the owner of a particular trademark is aggressive in protecting its rights, a counterfeiter may be more likely to copy a different brand. Information about sizeable settlements of civil claims and large fines or prison sentences in criminal cases can be effective in discouraging counterfeiting, at least temporarily.

Practical steps to fight counterfeiting

There are a number of practical steps a trademark owner can take in the US against counterfeiting. These include:

- Register trademarks promptly with the Patent and Trademark Office and record those registrations with customs.
- Survey the marketplace periodically to identify counterfeit products.
- Focus investigations on the larger distributors, aiming to learn the identities of the major manufacturers and importers of counterfeit merchandise.
- Work with law enforcement officials to obtain seizures of counterfeit merchandise and business records relating to the counterfeiting enterprise.
- Seek civil seizures where appropriate and bring civil suits to obtain injunctive and monetary relief from counterfeiters.
- Educate customs officials to enable them to recognise counterfeit products and to distinguish them from genuine items.
- Educate consumers about the dangers of purchasing counterfeit merchandise.
- Publicise successes against counterfeiters.



Fish & Neave IP Group of Ropes & Gray
 1251 Avenue of the Americas, New York,
 NY 10020, USA
 Tel: +1 212 596 9000
 Fax: +1 212 596 9090

www.ropesgray.com

Vincent N Palladino
 Partner
vincent.palladino@ropesgray.com

Vincent Palladino is a partner in the Fish & Neave IP Group of Ropes & Gray. He has been practising trademark, copyright, unfair competition and false advertising law for nearly 30 years. His practice includes litigation, counselling, licensing and transactional work. He is a former editor-in-chief of The Trademark Reporter and has written widely on trademarks including particularly grey market goods, genericness, secondary meaning and the use of surveys.

Vince has handled numerous trademark, copyright and unfair competition cases including: Costen v Gillette; National Basketball Association v Motorola Inc; Societe Des Produits Nestle v Casa Helvetia; Home Box Office v Showtime/The Movie Channel; PostX Corporation v The docSpace Company Inc; and SC Johnson & Son Inc v Lever Brothers Co.



Fish & Neave IP Group of Ropes & Gray
continued

Susan Progoff
 Partner
susan.progoff@ropesgray.com

Susan Progoff is a partner in the Fish & Neave IP Group of Ropes & Gray. She has been practising in the areas of trademark, copyright, unfair competition and false advertising law since 1979. Her practice includes litigation, counselling, prosecution, licensing and transactional work in the United States and internationally. She is a frequent speaker and author on topics relating to trademarks and copyrights.

Sue has handled numerous litigated trademark, copyright and unfair competition matters, including litigation for such clients as Lever Brothers Company, Snapple Beverage Corp, Toy Manufacturers of America, Inc, The Coca-Cola Company and Ford Motor Company, and has advised many companies on designing and implementing trademark enforcement and anti-counterfeiting programs.