

**World
Trademark
Review**

Anti-counterfeiting 2018



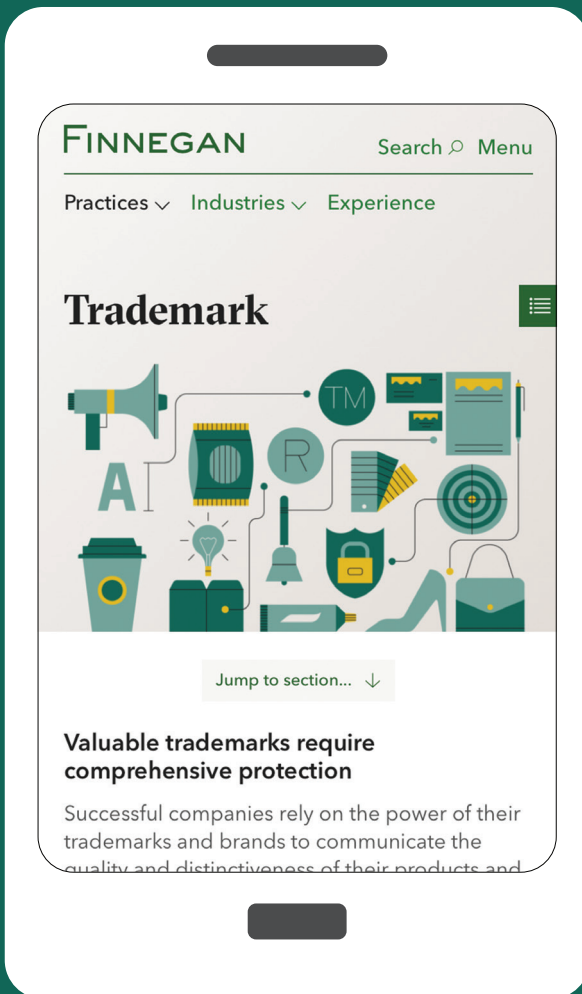
United States

Finnegan, Henderson, Farabow, Garrett & Dunner, LLP

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A Global Guide

Valuable trademarks require comprehensive protection



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Legal framework

The US anti-counterfeiting regime is built on two separate federal statutes: the Lanham Act (15 USC § 1051) and the Trademark Counterfeiting Act 1984 (18 USC § 2320). The Lanham Act addresses the establishment of trademark rights as well as civil anti-counterfeiting enforcement. The Trademark Counterfeiting Act makes violating the Lanham Act's anti-counterfeiting provisions a federal criminal offence. Although other state and federal laws address counterfeiting, nearly all US enforcement stems from these two statutes.

Under Section 45 (15 USC § 1127) of the Lanham Act, a counterfeit mark is defined as a "spurious mark which is identical to or substantially indistinguishable from a registered mark". Thus, registration of a trademark with the US Patent and Trademark Office is a prerequisite to making a successful counterfeiting claim under US law. Liability for counterfeiting requires a higher degree of copying than mere trademark infringement. While counterfeiting requires the accused trademark to be "identical or indistinguishable" from another's registered

trademark, trademark infringement liability requires only:

- a colourable imitation of a registered mark that is "likely to cause confusion, or to cause mistake, or to deceive"; or
- in the case of an unregistered mark, the use of a name, symbol, term or device that is "likely to cause confusion, or to cause mistake, or to deceive" (15 USC §§ 1114, 1125(a)).

Counterfeiting is subject to higher civil damages, and certain types of emergency relief, that do not apply to regular trademark infringement. Further, criminal enforcement and border measures are available only to combat counterfeit marks.

Border measures

US Customs and Border Protection

US Customs and Border Protection (CBP) has the authority to examine, inspect and search vessels, vehicles, cargo, baggage and persons entering the United States for any breach of US law (19 USC §§ 1581, 1582). The CBP's regulations adopt the Lanham Act's definition of counterfeiting and allow the CBP to detain

any goods imported into the United States that bear a suspected counterfeit trademark (19 CFR § 133.21). The CBP will notify the importer within five days that it has detained the goods suspected of being counterfeit. The importer then has seven days to respond by showing the CBP that the mark is not counterfeit. If the importer fails to respond, or if it cannot show that the mark is not counterfeit, the CBP may notify the trademark owner of the goods it has detained and invite the trademark owner to assist in the examination of the goods. This notification may include:

- the date of import;
- the port of entry;
- the country of origin;
- the identity of the importer and manufacturer; and
- samples of the goods for authentication.

After examination, if the CBP determines that the goods bear a counterfeit mark, it will seize the goods and they will be forfeited.

To take advantage of the CBP's powers to detain and seize counterfeit goods, a trademark owner must record its US trademark registration with the agency. Recording may be done online and costs \$190 per class of goods. Trademark owners are strongly encouraged to provide additional information that would help to identify counterfeit goods, including:

- physical hallmarks of authentic goods;
- geographic origins of authentic goods;
- the names of authorised manufacturers or licensees; and
- the names of past infringers.

Trademark owners may also offer seminars on identifying counterfeit goods to CBP personnel.

International Trade Commission

Counterfeit goods can also be blocked from entering the United States by an International Trade Commission (ITC) exclusion order. Under Section 337 of the Tariff Act 1930 (19 USC § 337), the ITC will conduct an investigation of the alleged importation of counterfeit goods on receipt of a complaint by a US trademark owner with sufficient domestic industry activities (foreign trademark owners are not eligible for ITC protection). Both the trademark owner

and the accused counterfeiter participate in the investigation, as does an ITC-appointed investigative attorney, who operates as a third party, charged with protecting the public interest. At the conclusion of the investigation, the ITC holds an evidentiary hearing to determine whether counterfeiting has occurred. This proceeding is similar to a trial in a US federal court, but is handled on an expedited basis. If the ITC determines that the import violates Section 337, it may issue an exclusion order barring counterfeit products from entry into the United States. The CBP enforces exclusion orders issued by the ITC.

Criminal prosecution

To commence criminal enforcement of trademark counterfeiting in the United States, the trademark owner can report the crime to various state and federal law enforcement authorities. The most common investigative and prosecutorial authority is the National Intellectual Property Rights Coordination Centre (IPR Centre). The IPR Centre is a collaborative effort by over 19 US government investigative and regulatory agency partners, including the Federal Bureau of Investigation. Trademark owners may report counterfeiting online at www.iprcenter.gov or by emailing the information to iprcenter@dhs.gov. On receipt of a report, investigators will gather evidence of the counterfeiting operation. It is critical that the trademark owner cooperates with US law enforcement authorities in order to provide the evidence necessary to prove both the validity of the owner's trademark rights and that the goods being sold are not genuine goods authorised by the trademark owner to bear the mark. Once the authorities have sufficient evidence in the case, they will pursue counterfeiting charges against the accused defendant.

If convicted, the defendant will face criminal penalties for intentional or unauthorised use of a counterfeit trademark. The criminal penalties for first-time offenders are up to 10 years' imprisonment and a \$2 million fine in the case of an individual, or a \$5 million fine in the case of a corporation or entity. For repeat offenders, the act calls for a penalty of up to 20 years' imprisonment and a \$5 million fine in the case of an individual, or a \$15 million fine in the case of a corporation or

entity (18 USC § 2320). Convicted counterfeiters are usually ordered to reimburse victims (including trademark owners) of their crimes. The government may seek enhanced penalties for acts of counterfeiting which cause serious bodily injury, including life imprisonment where a defendant knowingly or recklessly causes or attempts to cause death in connection with criminal counterfeiting. The government may also seek enhanced penalties in cases involving criminal counterfeiting of military goods or services or counterfeiting of drugs.

Law enforcement authorities will also seize the counterfeit goods during the investigation and (after conviction) destroy or otherwise dispose of the counterfeit goods. US law enforcement may prosecute not only the manufacturer of the counterfeit goods, but others who are actively trafficking in counterfeit goods. Thus during the criminal investigation and prosecution, US law enforcement authorities may also seize any property, equipment, storage facilities and vehicles associated with the manufacture and transport of counterfeit goods.

Civil enforcement

In criminal enforcement, the trademark owner has no control over when the counterfeit goods are seized, the aggressiveness of the prosecution or even who will be charged with counterfeiting. Consequently, many trademark owners prefer to control anti-counterfeiting enforcement by pursuing civil remedies instead. The first step in civil enforcement is to conduct a private investigation to identify the accused counterfeiter and document his or her sale of the counterfeit goods. Typically this is done by making purchases of the counterfeit products in as many of the known locations as possible, then having the purchaser prepare an

affidavit describing the purchase and attaching photographs, receipts and samples of the purchased goods.

Once the investigation has been completed and the evidence has been collected, the trademark owner may commence the civil suit by filing a complaint with a court – typically the federal court where the counterfeit goods are located. As a first step in a civil counterfeiting case, most trademark owners will want to request that the court issue an *ex parte* seizure order (15 USC § 1116(d)(1)(A)). A seizure is an effective remedy because it takes the counterfeit goods off the market immediately. To obtain an *ex parte* seizure order, the following must be proved:

- A seizure order is the only adequate remedy;
- The plaintiff is likely to succeed on the merits of the case;
- The plaintiff will suffer immediate and irreparable injury if the seizure is not ordered;
- The counterfeit goods will be located at the place identified by the plaintiff; and
- The defendant will destroy, move or hide the goods if it is given advance notice of the seizure.

The request for the seizure must be supported by the affidavits created after the initial investigation. Civil seizures of counterfeit goods are relatively common in the United States, although they may be more difficult to obtain in some locations than in others. Requests for civil seizure orders are often accompanied by requests for a temporary restraining order, preliminary injunction, asset freeze and expedited discovery.

The trademark owner may request that the trial be decided either by a jury or by a judge. Some plaintiff trademark owners prefer



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Brett Heavner's practice includes all aspects of trademark and unfair competition law, with a particular emphasis on trademark infringement, counterfeiting, false advertising litigation and Trademark Trial and Appeal Board litigation. His clients include pharmaceutical companies, medical device manufacturers, banking and financial services institutions, major trade associations, food product companies and petroleum exploration and refining companies. He also handles IP issues, including protecting certification marks, for safety and quality testing organisations. Having significant experience in all aspects of domestic and foreign trademark protection, Mr Heavner assists clients in developing effective worldwide strategies for establishing and enforcing their trademark rights. He regularly counsels clients on issues regarding trademark clearance searching, trademark and copyright licensing and certification mark programmes.

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Ms Wu focuses on enforcing client rights against counterfeiters and manages civil and criminal anti-counterfeiting actions in China, crafting efficient solutions for each client. She offers trademark and anti-counterfeiting consultation to various Fortune 500 companies, conducting searches on the Chinese trademark databases and managing Chinese trademark prosecution and enforcement matters for many publicly traded companies.

jury trials because juries tend to award higher actual damages and are usually sympathetic to victims of counterfeiting. On the other hand, if the facts of the case or the measurement of damages is particularly complicated, it may be preferable to have a judge decide the case. If the defendants are ultimately found liable for counterfeiting, the trademark owner may be awarded actual damages or profits, injunctive relief and attorneys' fees. In the absence of extenuating circumstances, courts

are instructed to enter judgment for three times the base profits or damages awarded, whichever amount is greater, together with reasonable attorneys' fees for intentional acts of counterfeiting. In *Tiffany and Company v Costco Wholesale Corp* (2017 WL 3485380 (SD New York 2017)), Costco was recently ordered to pay Tiffany and Co treble damages of \$19 million for selling counterfeit rings.

Where evidence proving actual sales or profits of the infringer is difficult (or

impossible) to obtain, the trademark owner may elect to receive statutory damages instead. Statutory damages are set by the judge hearing the case and do not represent actual sales volume or profits shown at trial. Instead, the statutory damage amount is an equitable amount determined by the entirety of the circumstances of the case. Statutory damages can range from \$1,000 to \$200,000 per counterfeit mark per type of goods. Where infringement is wilful, statutory damages of up to \$2 million are available.

Anti-counterfeiting online

Online counterfeiting is increasingly common and requires a different enforcement approach. An *ex parte* seizure is not adequate where there is no easily identifiable US physical location where the counterfeit goods can be seized. Much online counterfeiting involves shipping the counterfeit goods to US customers from foreign locations. Further, many online sellers operate under false names. As a result, it can be difficult to identify the counterfeiter with sufficient certainty to effect service of process under US civil procedure requirements. Fortunately, US law provides a number of legal tools against online counterfeiting.

Host and service provider remedies

The trademark owner can focus on the host website or internet service provider (ISP) facilitating the sale of counterfeits. US law provides a powerful incentive for hosts and ISPs to cooperate in removing or disabling web pages that are selling counterfeit goods. E-commerce websites and ISPs all face potential liability for contributory infringement under both US trademark and copyright law if they knowingly facilitate the sale of counterfeit goods. US trademark case law and the Digital Millennium Copyright Act (17 USC § 512) provide a safe harbour from liability for ISPs that establish a notice and takedown process for responding to counterfeiting complaints and removing counterfeit materials in a timely manner. These safe harbours are not available to ISPs that are aware of the counterfeiting activities and choose to ignore them, or that receive a financial benefit directly attributable to the infringing activity. Further, even without notice of counterfeiting, an ISP may be found



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liable for contributory infringement where the ISP is intimately involved in the creation and support of the counterfeiter's website. Of course, if the host or ISP is located outside the United States and has no significant US contacts, it may be difficult to force its compliance with these US laws.

In addition, the Digital Millennium Copyright Act provides a special type of subpoena that can be served on the ISP at the same time as the takedown notice. This subpoena requires the ISP to reveal identifying information about the counterfeiter from its business records, including:

- name;
- street address;
- email address;
- telephone number; and
- any other identifying data.

The subpoena does not require the trademark/copyright owner to file an actual complaint in court, although it does require the subpoena to be processed by the clerk of the court where the ISP is located.

Domain name remedies

Where a domain name itself is counterfeit and is used for a counterfeiting operation, the trademark owner can pursue remedies by attacking the validity of the domain name registration. The Uniform Domain Name Dispute Resolution Policy (UDRP) provides for the cancellation or transfer of the offending domain name used in counterfeiting



Working closely with approved distributors and retailers to confirm each product's e-pedigree will immediately identify the counterfeit goods and will red-flag the person putting the suspected product into the supply chain

operations. The UDRP is a mandatory arbitration proceeding that most domain name registrants submit to in their registration agreements. Under the UDRP, a domain name will be transferred to a complaining trademark owner when the following elements are proven:

- The domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights;
- The domain name was registered and is being used in bad faith; and
- The domain name holder has no rights or legitimate interest in respect of the domain name.

The consensus view of panels in UDRP proceedings is that a registrant's use of domains to sell counterfeit versions of a complainant's products does not constitute *bona fide* offerings of goods or services or a legitimate non-commercial or fair use.

Where the domain name itself is not counterfeit, but is simply used as the name of a notorious counterfeiting website, the Department of Justice can seize the domain name and thereby stop the counterfeiting operation. Website owners usually have 60 days to challenge the seizures in US courts. However, according to the Department of Justice, in almost every one of the past 200 seizures, not one site owner has challenged the action.

Payment processor assistance

Payment service providers can provide effective assistance in addressing the online sale of counterfeit products. The International Anti-counterfeiting Coalition (IACC) created the

RogueBlock programme in partnership with the payment industry. RogueBlock makes use of a secure online portal that facilitates the flow of information from trademark owners to designated enforcement agencies and credit card companies. Major payment providers such as PayPal, MasterCard, Visa, American Express and Discover participate in the programme. To date, the programme has terminated over 5,000 individual counterfeiters' merchant accounts, which has affected over 200,000 websites. While this approach may stop the sale of counterfeits, it does not provide any monetary reimbursement for the trademark owner.

US litigation tools

Unfortunately, counterfeiters can easily change their ISPs and domain name registrars, making the pursuit of these counterfeiters a never-ending game of cat and mouse, with counterfeiters constantly moving on to a new ISP or a new domain name. Worse yet, a counterfeiter may ultimately move its ISP or domain name registrar to ones that are beyond the reach of the remedies outlined above. In response, US courts have begun allowing for special procedures to bring unidentifiable counterfeiters into a court in civil enforcement cases.

When making test purchases of counterfeit goods online, the US purchaser may receive email communications from the counterfeiter or receive shipments from the counterfeiter. The trademark owner may also uncover evidence of the counterfeiter's email communications or contact information in response to a Digital Millennium Copyright Act subpoena. While these US-targeted communications or shipments themselves may

not identify the real name of the individual or business behind the counterfeiting scheme, they may be enough to support civil litigation in a US court. US procedure allows a trademark owner to sue an unknown counterfeiter using an alias (eg, 'John Doe' or 'ABC Corp'). Typically, the court will then allow the trademark owner to conduct discovery of third parties (eg, ISPs, domain name registrars and shipping companies) to identify the actual counterfeiter. US courts will also allow plaintiff trademark owners to prove the identity of the counterfeiter through various identifying characteristics linking them to known individuals (eg, their frequently used screen names, base locations and selling patterns). Alternatively, US courts have been willing to allow the plaintiff trademark owner to serve process on the counterfeiter via a known email when the email will likely provide the counterfeiter with actual notice of the US litigation.

In US trademark counterfeiting litigation, trademark owners may also seek a temporary restraining order and preliminary injunctions to freeze assets of the counterfeiters, thus ensuring the availability of a meaningful accounting after a final relief (15 USC §1117). For the plaintiff to obtain this emergency relief, the following must be established:

- The plaintiff is likely to succeed on the merits of its claim;
- The plaintiff is likely to suffer irreparable harm in the absence of preliminary relief;
- The balance of hardships tips in the plaintiff's favour; and
- A preliminary injunction is in the public interest.

US courts are also willing to grant the temporary restraining order and preliminary injunction to freeze assets *ex parte*, when defendants would likely dissipate assets if given notice. Evidence that the counterfeiter has taken steps to hide its identity is typically sufficient to justify the *ex parte* order.

Preventive measures/strategies

In addition to using enforcement activities to dissuade counterfeiting, trademark owners can adopt other measures to make counterfeiting of their products less likely. These include designing counterfeit-resistant packaging

and employing product tracing and tracking technology. Common packaging innovations include the use of holograms, visible markings with special dyes or inks, special threads in container materials and serialised labels. These features are difficult to duplicate, thereby discouraging counterfeiters. Tracking and tracing technology involves the ability to verify the physical location of products through each point in the production and supply chain. To accomplish this, trademark owners use unique serial numbers and codes on their products and packaging. An electronic system will use the codes to create a 'genealogy' or 'e-pedigree' for each product or batch of products. If a suspicious product does not have an e-pedigree within the electronic tracking and tracing system, it can easily be identified as counterfeit. Working closely with approved distributors and retailers to confirm each product's e-pedigree will immediately identify the counterfeit goods and will red-flag the person putting the suspected product into the supply chain.

Conclusion

US law offers a full arsenal of weapons that trademark owners can employ to combat counterfeiting at every step. Non-duplicable packaging along with tracking and tracing technology should discourage the creation of counterfeit goods. Working with the CBP should prevent foreign counterfeit goods from entering the US market. Takedown requests to ISPs should stop online sales. Criminal enforcement should punish the counterfeiters, and civil litigation can provide some compensation for victims of counterfeiting. **WTR**

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