

## The Economic Impact of Counterfeiting is a Global Problem affecting a Wide Range of Industries

- Although the word "counterfeiting" is used in reference to unauthorized appropriation of a variety of different types of Intellectual property, only in the trademark area is the term "counterfeiting" technically accurate semantically in U.S. parlance. Nevertheless, the term "counterfeiting" has some connotation associated with other types of intellectual properties;
- In relation to patent infringement, the term counterfeit, is probably associated with the situation where not merely each of the elements covered by a patents is infringed, but the very specific details of the product are copied as well;
- In the copyright area, a term often associated with the term "counterfeiting" is piracy. Piracy commonly refers to clear cut unauthorized Infringement of sound recordings, videos, and computer software

## WHAT IS COUNTERFEITING?

- Counterfeiting encompasses *any manufacturing of a product which so closely imitates the appearance of the product of another to mislead a consumer that it is the product of another.*
- *The infringement of the legal rights of an owner of IP*
- Egs. Trademark Infringement, Copyright Infringement, Copying of Packaging, Labelling and any other significant features of a product.

### **The TRIPS AGREEMENT: Agreement on Trade-related Aspects on Intellectual Property Rights defines counterfeiting and piracy as follows:**

a) "counterfeit trademark goods" shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation;

b) "pirated copyright goods" shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of

*that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.*

## **FEDERAL STATUTE DEFINITION OF COUNTERFEIT 15 USC 1116(d)(1)(B)**

A counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered.

## **TRADEMARK REGISTRATION**

Federal registration provides procedural presumptions and covers geographical gaps resulting from limited usage of a mark.

Prerequisites of registration for use of the federal counterfeiting statutes should make an attorney give greater thought to trademark registrations for merchandisable properties.

## **INTERNATIONAL POLICING AGENCIES**

- Interpol ensures that all criminal cases are reported to the appropriate law enforcement agency and that complaints are duly filed. Interpol acknowledges that many officers in member states still consider counterfeiting to be a normal economic activity;
- The World Customs Organization

## **ANTI COUNTERFEITING ASSOCIATIONS**

- Business Software Alliance (BSAO)
- International Federation of the Phonographic Industry (IFPI)
- Global Anti-Counterfeiting Group (GACG)
- Comite Colbert
- Union des Fabricants

## OVERVIEW OF INDUSTRIES AFFECTED BY COUNTERFEITING

- Counterfeit in the **clothing industry** is very prevalent. A common technique is to import plain clothing and attach a counterfeit label;
- US Copyright Industry, including the Business Software Alliance (BSA) (including: **CDs, videos, computer games, software, music recordings**);
- Motion Picture Association (MPA);
- International Federation of Phonographic Industry (IFPI);
- Sporting goods;
- Watches,
- Perfume;
- Toys;
- Medicine;
- Spare parts industry (Automotive, Aircraft).

## TOP SUPPLIERS & CONSUMERS OF COUNTERFEIT GOODS

Top **suppliers** of counterfeit goods in the U.S. include:

- (1) China, (source of 80% of counterfeit goods seized at U.S. borders)
- (2) Russia,
- (3) India,
- (4) Pakistan
- (5) Uruguay
- (6) Korea and
- (7) Philippines

Top **consumers** of counterfeit goods include:

- (1) China,
- (2) Russia,
- (3) Latin America (esp. Brazil);
- (4) Greece, and
- (5) Italy

## **PROBLEMS WITH POLICING COUNTERFEIT CRIMES**

- IP owners face difficulties in persuading enforcement authorities to take action against counterfeiters;
- Counterfeiting is often given a low priority compared to other criminal offenses;
- Often difficult to investigate;
- Procedural rules are difficult and complex;
- Enforcement agencies treat counterfeiting of luxury goods as a “soft crime”;
- Consumers sometimes knowingly buy counterfeit goods b/c they can't afford the genuine article;
- Belief that counterfeiter actually contribute to the price of the marketing of the brand without causing harm; and
- “Victimless” crime

## IMPACT OF COUNTERFEITING

- Ultimate victim is the consumer (inferior quality + health + safety concerns + higher prices);
- Public at large because it discourages inventiveness;
- Cost of enforcement;
- Job losses;
- May receive poor quality goods at an excessive price and may be exposed to health and safety dangers;
- Governments lose out on unpaid taxes and incur large costs in enforcing IP rights
- Increasing concern that counterfeiting is related to other criminal activity, such as trade in narcotics money laundering and terrorism;
- Estimate that counterfeit goods now worth more than 5 per cent of world trade.

## ANTI COUNTERFEITING TECHNOLOGIES

Some of the technologies used to protect and authenticate genuine products include the following:

- Optical Technology, Holograms;
- Smart cards;
- Biotechnology;  
Development of specific monoclonal antibodies to recognize certain antigens or marker chemicals. The marker chemicals or added in tiny concentrations to products such as pharmaceuticals or liquor and are detected by using a test kit containing the specific antibodies;
- Chemical technologies, Inks;  
Photochromic (or light-reactive) and thermochromic (or heat reactive) inks. These are typically applied on product labels and packaging. When exposed to heat or light they change color and when exposed again, the color reverts to the original. The effect is generally reversible as often as required. Inks invisible to the naked eye can be read by bar-code scanners (used in the fragrance and pharmaceutical industries to authenticate products)

- Plastic tags; and
- Microscopic tags – constructed from up to ten different colored layers. The sequence of colors denotes the unique code of the tag and the total number of possible codes ranges up to 4.5 billion. The tags can be applied to both product and packaging in a number of ways, including incorporation in clear varnish.

## **DUE DILIGENCE IN UNCOVERING COUNTERFEIT**

- Manufacturer is in the best position to know whether an item is a fake or genuine. Therefore manufacturer should be obliged to assist in identifying copies of their products
- Financial burden is shifted to the IP rights holder
- Increase in the global market and market competition continue to put the onus on the IP holder to police their mark.

## COUNTERFEITING TECHNIQUES

- Import plain clothing and attach logos close to the point of sale
- Grey market channels: mix genuine samples with counterfeit

- **PARALLEL TRADING**

- Parallel trading refers to situations where products are legitimately bought in one territory and diverted for sale to another territory without the consent of the right holder in the territory.
- Parallel Trading is facilitated by 2 principles that limit the rights of an IPR owner:
  - Principle of territoriality; and
  - Principle of exhaustion (the right owner has very limited rights to prevent further distribution of a product that is put on the market with his consent)

## **INCREASE IN COUNTERFEITING**

- New technology has benefited counterfeiters;
- The Internet has significantly aided counterfeiters' efforts to reach across national borders. Cyberspace takes the vendors of counterfeit goods off the streets and away from the flea markets and provides them with an instantaneous worldwide market;
- Increased exports from China and East Asia;
- Increased distribution channels through international networks;
- Free trade;
- Lack of communication between countries;
- Tight budgets;
- Lack of efficient borders.
- Quality of fake goods used to be very poor

- Improved quality b/c very often the fakes are made by the same manufacturer used by the IP owner.

## **COUNTERFEIT GOODS – NOT A SOFT CRIME**

### LUXURY GOODS

- Ralph Lauren, Calvin Klein, Prada, Timberland, Cartier

### FASHION INDUSTRY

- Common technique to import plain clothing in one batch, produce the labels on-site or import them in another batch at another date, and then attach the labels overnight close to the point of sale. This makes it much more difficult to detect the fakes while they are still in sufficiently large quantities to justify action.

### SPORTSWEAR

- The main target customer are youngsters
- Adidas, Nike
- Both Adidas and Nike have in house facilities to deal with counterfeits

## PERFUMES

- Counterfeiting is a well-advertised problem in this industry
- The distribution of perfumes is normally restricted to exclusive retailers and cause price stability
- Ninety per cent of fakes are sold on the grey market
- Channels of distribution on the grey market include street traders and small shops
- Replicas claiming false origin – similar look alikes
- Most consumers buying these fakes are aware that it is not the genuine item and that the product is of a lower quality. It is very common, however, for the trader to pretend that the goods are stolen in order to deceive the consumer about the quality.

## MOTION PICTURES

- Common method is signal theft, that is the unauthorized interception of cable and satellite signals by individuals or commercial establishments such as hotels, bars and restaurants.

## MUSIC INDUSTRY

- Modern technology has enabled an unprecedented level of production, decreased the costs of piracy and improved the quality of pirate copies
- Developing countries are perceived to be saturated by pirated recordings creating barriers to importation by genuine producers.

- Music organizations claim to have found evidence that the manufacturing and distribution of pirate CDs has become an organized, large scale criminal activity operating on a global level
- Russia and Brazil are top priority countries for combating CD piracy

## SOFTWARE

- Software piracy is almost exclusively related to packaged software which is written in standard form, mass produced and sold as a commodity product “off-the-shelf”
- The main software producers are based in the United States
- Software industry has become notorious for combating piracy

## TOYS

- One of the more serious concerns is the health and safety risks that can occur
- The main problem area are China and Turkey
- Trade in pirated video games, such as NINTENDO® is said to be carried out by cartels

## BABY FOOD

- In August 2001, there were reports from San Diego of black marketers covering cheaper baby formula brands with counterfeit labels from expensive brands.
- According to Dr. Sarah Larson of the San Diego Women, Infant and Children Program: "When people go in and purchase one type of formula and in fact it's something else,

there can be problems with allergies and serious health problems for a baby, particularly if they're a high-risk baby in the first place."

## AIRCRAFT COMPONENTS

- A number of incidents of airplane crashes related to the use of fake components
- The FBI in the past has identified hour basic fraud schemes involving SUPS (Suspected unapproved parts)
  - Affixing a yellow FAA airworthiness tag which certified a part has been rebuilt or overhauled, to a used part on which no work has been done;
  - Making a part based on manufacturer specifications or having been tested;
  - Buying, then reselling, production over-runs from part makers that supply major aircraft manufacturers. Such parts may be airworthy, but they can also be factory rejects; and
  - Obtaining parts that are fatigued, worn or damaged to the point of being unworkable and selling them as refurbished

## PHARMACEUTICALS

- Many developing countries have a local production of generic drugs that infringe on patents;
- The Pharmaceutical Security Initiative (PSI) helps to police the industry
- Financial losses are estimated to be upwards of 20 billion dollars

## CIGARETTES

## **CONSEQUENCE OF COUNTERFEIT GOODS ON THE MARKET**

- Dozens of people died in Cambodia through taking ineffective, fake malaria medicines.
- Law enforcement in Zambia seized fake shampoo containing acid.
- Body-builders and others buying steroids on the black market in Australia were sold repackaged livestock steroids as human steroids.
- Diseased pig meat was used in counterfeit cans of pork luncheon meat in China.
- In India, counterfeits of drugs were used to fight antibodies in Rh-D negative mothers.

## **TRADE SHOWS**

Trade shows have become a magnet for counterfeit products. At the 2004 AAPEX (Automotive Aftermarket Products Expo) two booths were shut down for non compliance with corrective measures.

- 17 patent violations and 10 trademark violations were discovered

## **HOW TO SPOT FAKES**

- Know your distributor: background checks
- Consider the Source (where was it made)
- Details: verify minor markings
- Money Talks: is it too good a bargain?

## **ITC – U.S. International Trade Commission**

- an independent, quasijudicial Federal agency with broad investigative responsibilities on matters of trade
- investigates the effects of dumped and subsidized imports on domestic industries and conducts global safeguard investigations;
- investigates alleged unfair practices in import trade. Most complaints under this provision involve allegations of patent infringement or trademark infringement
- also adjudicates cases involving alleged infringement by imports of intellectual property rights

- facilitates a rules-based international trading system
- information and analysis are provided to the President, the Office of the United States Trade Representative (USTR), and Congress to facilitate the development of sound and informed U.S. trade policy
- The Commission makes most of its information and analysis available to the public to promote understanding of international trade issues.
- conducts an investigation, and if the Commission makes an affirmative determination, it recommends to the President relief that would remedy the injury and facilitate industry adjustment to import competition. The President makes the final decision whether to provide relief and the type and duration of relief.

## **MISSION OF THE ITC**

- administer U.S. trade remedy laws within its mandate in a fair and objective manner;
- provide the President, USTR, and Congress with independent analysis, information, and support on matters of tariffs, international trade, and U.S. competitiveness; and
- maintain the Harmonized Tariff Schedule of the United States (HTS).

## **ITC has five major operations that serve its external customers:**

- Import Injury Investigations,
- Intellectual Property-Based Import Investigations,
- Industry and Economic Analysis,
- Tariff and Trade Information Services,
- Trade Policy Support

## **U.S. CUSTOMS SERVICE**

- The US Customs Service, the government agency charged with defending the nation's borders, has been tasked with intercepting these goods.
- because counterfeiting operations extend their tentacles across national borders and are present in so many countries around the world, the ultimate solution to the counterfeiting problem must be a global one.

## **Dept. of Homeland Security/U.S. Immigration & Customs Enforcement (ICE)**

- As ICE began to take a closer look at the changing face of crime today, it noticed striking similarities and connections between counterfeiting and other types of

criminal activities, such as organized crime (particularly drug trafficking), gang activity and terrorism.

- In essence, counterfeiting, has become the 'drug trafficking of the new millennium,' as former drug cartels discovered counterfeiting to be easier, more lucrative and carry fewer penalties than drug smuggling.

## **INTERNATIONAL CHAMBER OF COMMERCE (ICC)**

- trademark counterfeiting and copyright piracy have grown into an international phenomenon, accounting for between five and seven percent of world trade
- With world merchandise exports of over \$6 trillion, the ICC adds, counterfeiting and piracy would steal \$371 billion from legitimate traders
- The high levels of trademark counterfeiting in particular reflect consumers' increased desire for brand name products, the ability of counterfeiters to adapt to trends in the public appetite and the enormous profits that can be made from the sale of counterfeit goods.

## LEGAL ACTIONS BEFORE CUSTOMS

- In order for custom officials to stop trademark infringement, it is first necessary that the trademark actually be registered with the United States Patent and Trademark Office.
- The trademark registration must be recorded with the Treasury Department. This procedure may take perhaps three months or more.
- The Treasury Department then sends copies of the registration and the recordation to the various ports of entry.
- In order to be effective at stopping pirated merchandise it is necessary to specifically provide the customs official with information concerning an incoming shipment.

- A criminal action for the Infringement of a trademark or indication of source can be prosecuted by the United States Attorney's office In the name of the United States at America.

## **INTA – INTERNATIONAL TRADEMARK ASSOCIATION**

- 123-year-old not-for-profit organization comprising more than 4,000 member companies and firms from more than 150 countries;
- the largest organization in the world dedicated solely to the interests of trademark owners;
- membership of INTA crosses all industry lines and includes manufacturers, licensing entities and retailers, values the essential role that trademarks play in promoting effective commerce, protecting the interests of consumers, and encouraging free and fair competition;
- worked with Congress to meet the changing economic and legal landscapes, including the passage of measures such as the Trademark Counterfeiting Act of 1984 and the Anticounterfeiting Consumer Protection Act of 1996

## **TRADEMARK COUNTERFEITING IS A CRIME**

One who traffics or attempts to traffic in goods or services knowingly using a counterfeit mark does commit a crime, under the Piracy and Counterfeiting Amendments Act of 1982. An offense requires proof that one:

- (1) Intentionally;
- (2) traffics or attempts to traffic in goods or services; and
- (3) knowingly
- (4) uses a counterfeit mark
- (5) on or in connection with such goods or services. 18 U.S.C. 2320.

## **CRIME LINKED TO TRADEMARK COUNTERFEITING**

- Counterfeiting is a fully-fledged criminal activity with links to organized crime and criminal gangs.
- The vendors on city streets who peddle fake perfumes, handbags, watches, T-shirts, etc. often are a cover for even more notorious enterprises.
- The money paid by unwitting consumers does not stay in the street vendors' hands for very long. It goes to criminal gangs who actually run the counterfeit businesses and use the proceeds from the sale of counterfeit goods to fund other illegal activities like drugs, pornography and terrorist activities.
- Stopping trademark counterfeiters can be a dangerous business
- Counterfeiting operations are often defended with guns, knives and other weapons, held in the hands of people who are not afraid to use them.
- Customs and other law enforcement agents receive specialized training that involves preparation for armed raids on suspected counterfeit warehouses and production facilities. And the risks are not limited to law enforcement personnel.
- One trademark lawyer reported to INTA that he was literally stabbed in the back when supervising the seizure of counterfeit watches in New York City. As the attorney explained: "One peddler went berserk, took out a knife and started running after people."

# COUNTERFEITING PENALTIES

## CIVIL REMEDIES

- The most common action against counterfeiters is civil litigation
- Defendants include, those involved in the production, distribution and sale of counterfeit goods

## SEIZURE OF GOODS

- Trademark counterfeiting laws include typically the availability of ex-parte seizure orders without actual notice, enhanced damages and profits, and mandatory attorneys fees. Criminal provisions, both federal and state, have been enacted
- Plaintiff may obtain an ex parte seizure order without notice, providing certain conditions are met, and subject to rather stringent penalties if certain procedures are not followed. In order to utilize these remedies, the United States attorney must be notified. The purpose of this is to give the U.S. Attorneys Office an opportunity to review the evidence to determine if it would be appropriate for a criminal action to be prosecuted, and the court may withhold granting of a seizure order if detrimental to a criminal prosecution.
- The Lanham Act provides for judgment in the amount of three times the greater of profits or damages, and reasonable attorneys' fees.

- The request for seizure must not be publicized. The plaintiff's attorney must present evidence showing the basis that the plaintiff is entitled to this remedy, and that nothing short of this remedy would be adequate. A likelihood of success must be shown in proving that the goods offered for sale are counterfeit.

## **TRADEMARK COUNTERFEITING ACT OF 1984 (18 USC 2320)**

- Made counterfeiting a federal crime. Under this statute, courts may order the destruction of the counterfeit labels, packages and the machines for making them.
- Individual shall be fined not more than \$2,000,000 or imprisoned not more than 10 years or both
- A person other than an individual may be fined not more than \$5,000,000.
- In the case of an offense by a person under this section that occurs after that person is convicted of another offense under this section, the person convicted, if an individual, shall be fined not more than \$5,000,000 or imprisoned not more than 20 years, or both, and if other than an individual, shall be fined not more than \$15,000,000.

- Include injunction, declaratory relief, seizure, or impoundment, destruction of infringing goods and damages.
- Plaintiff may seek to obtain orders on an ex parte basis without knowledge to the defendant.

## **STATUTE OF LIMITATIONS IN INTELLECTUAL PROPERTY LAW**

- The Statute of limitations for trafficking in labels is not specified.
- The statute of limitations for trademark counterfeiting is not specified.
- The statute of limitations for criminal copyright infringement is 3 years.

## **STATUTE OF LIMITATIONS UNDER NATIONAL CRIMINAL LAW**

- The general federal statute of limitation is 5 years where a term is not otherwise specified by statute.
- There is no separate of limitations for criminal copyright Infringement in the criminal law, though the Copyright Act itself specifically refers to limitations of actions for criminal copyright infringement.

## **COPYRIGHT INFRINGEMENT**

Copyright infringement is a criminal offense both under Section 506(a) of the Copyright Act, and under Section 2319 of the criminal laws setting out penalties for criminal copyright infringement. The elements of criminal copyright infringement require In addition to claims under the civil law, the element of intent.

## **TRADEMARK COUNTERFEIT – BURDEN OF PROOF**

In the trademark area, the prosecutor must prove that the defendant either manufactured for sale, sold or distributed a confusingly similar mark. The prosecution must show that the defendant knew the mark was owned by another. The prosecutor must prove its cases beyond a reasonable doubt.

## **CRIMINAL INTENT**

Often counterfeiters will import "counterfeit" bags unlabeled into the U.S. so that they may argue they are not counterfeiting one specific product, and lacked the required mens rea requirements that a counterfeiter (i) know the products are counterfeit and (ii) intends to sell the products