Counterfeiting & the Grey Market

How to efficiently fight knock-off products and grey market goods in the United States and Europe

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Agenda

- **Introduction**
- **Part 1**: Issues for Brand Owners Arising in Connection with Cross-Border Importation of Goods
- **Part 2**: Mechanisms for Enforcement Against Unauthorized Cross-Border Importation of Goods in the United States
- **Part 3**: European Perspective and Mechanisms for Enforcement
- **Part 4**: Conclusion – Take Aways
- **Part 5**: Q&A
Issues for Brand Owners Arising in Connection with Cross-Border Importation of Goods
Counterfeit v. Grey Market

Counterfeit Goods

– What are they?
  • A counterfeit is a good which is identical but not genuine, or substantially indistinguishable from, a registered mark

Grey Market Goods (also “parallel imports”)

– What are they?
  • When someone other than the designated exclusive importer buys genuine trademarked goods outside of a country (e.g. United States) and imports them for sale in the United States in competition with the exclusive U.S. importers
Counterfeit Goods: What is at stake?

- United States – April 2010
  - Federal, state and local law enforcement officials confiscate approximately $40 million in counterfeit goods.

- United States – 2009 Calendar Year
  - U.S. officials seized approximately $260 million in counterfeits.

- Public Safety:
  - Recent recall for counterfeit “Surgical Mesh Products”

- “Intellectual property theft steals a whole lot. It steals jobs, creativity, it funds organized crime, and it’s a serious risk to public safety.”
Grey Market Goods: What is at stake?

- A similar loss in profits
  - A recent KPMG study shows that as much as $40 billion in sales are passing through the grey market annually for information technology products alone
  - An article from this month discussed the sale of Apple’s iPad in India through the grey market

- A similar health concern
  - Legitimate product that does not meet FDA standards may cross the border into the U.S.
Grey Market Goods – Why We Care

- Regulatory Issues
  - Goods may not comply with United States regulatory requirements
- Exclusive Distribution Rights
  - Disrupts current relationships with distributors
- Dilution of Brand
  - Goods formulated for differing local preferences and tastes
Grey Market Goods – “Materially Different”

- **Standard**
  - If the grey market goods are “materially different” they are not “genuine” and can create a likelihood of confusion
  - Differences need not be “great” and “subtle” differences are enough to cause confusion

- **Examples of “materially different” goods**
  - Products formulated for distinct markets
  - Different warranties
  - Use of different languages
  - *Original Appalachian Artworks, Inc. v. Granada Elec., Inc.*
    - Cabbage Patch Kids Dolls (U.S. Distributor v. Spanish Distributor)
    - Finding material differences where an imported doll comes with foreign language “adoption papers” and is not permitted to be “adopted” domestically
First Sale Doctrine

What is it?

- The “First Sale” rule of trademark law holds that once a trademark owner sells its products (anywhere in the world), the buyer generally may resell the products under the original mark without incurring any trademark liability.

What about foreign sales?

- Only foreign sales of “genuine” (not “materially different”) goods are sufficient to trigger the first sale doctrine.
- If there is a “material difference” first sale doctrine does not apply.
What Are Some Best Practices to Prevent This?

- Audit your supply chain
- Maintain end-user programs to help consumers confirm that the products they purchase are legitimate
- Invest in policing programs
- Review license and distribution agreements
- If in the software or hardware space, join the Business Software Alliance (www.bsa.org)
- Register marks at Trademark Office and Customs
Mechanisms for Enforcement Against Unauthorized Cross-Border Importation of Goods in the United States
United States Statutory Protection

Lanham Act § 42

– No article of imported merchandise shall be admitted to entry at any customhouse of the United States if:

  • It bears a trademark which shall copy or simulate a trademark registered on the Principal Register of the federal Lanham Act;
  • It bears a name which shall copy or simulate the name of any domestic manufacturer or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention or law affords similar privileges to citizens of the United States;
  • It bears a name or mark calculated to induce the public to believe that the article is manufactured in the United States or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured

Tariff Act § 526(a)

– Prohibits the importation of a product that bears a trademark owned by a citizen of […] the United States and is registered in the U.S. Patent and Trademark Office.
Working with U.S. Customs

Registration is Easy

- U.S. Customs and Border Protection
  - Intellectual Property Rights e-Recordation (IPRR) application
    - https://apps.cbp.gov/e-recordations/
  - Generally What You Need:
    - Name, business address, and citizenship;
    - Places of manufacture of goods bearing mark;
    - Name and address of businesses authorized to use the trademark;
    - Certified status copy of trademark; and
    - A filing fee of $190.00 for each trademark and each class of goods
After Recordation

- Once recorded they can be viewed in the CBP database at http://iprs.cbp.gov
- Possible violations can be reported online on the e-Allegations Submission Form https://apps.cbp.gov/ealegation
U.S. Customs and Border Protection at Work

- U.S. Customs and Border Protection (CBP) works closely with other government agencies such as Immigration and Customs Enforcement (ICE) to monitor the import/export of goods.

- The CBP can seize goods, issue civil fines and refer cases to other law enforcement agencies for criminal investigation.

- In 2009, the CBP conducted 14,841 seizures of counterfeit and pirated goods. The domestic value of those goods is $260.7 million dollars. Goods from China accounted for 79% of the total domestic value for all seizures.

Top 10 Seized Commodities
1. Footwear
2. Consumer Electronics
3. Handbags/Wallets/Backpacks
4. Wearing Apparel
5. Watches/Parts
6. Computers/Hardware
7. Media
8. Pharmaceuticals
9. Jewelry
10. Toys/Electronic Games
Trademark owners should not simply record their registrations and then rely on the CBP to catch all counterfeits being imported into the U.S. A successful program includes providing the CBP with notice of any potential counterfeiters that are known to the owner.

Recording your trademark registration is necessary for civil seizures but not to enforce criminal counterfeiting provisions.

Marks registered on the Supplemental Register are not subject to protection from importation.
Seizures by Customs

- Goods detained 30-days
- Goods bearing counterfeit mark are automatically seized and forfeited if there is no consent to use the trademark from the trademark owner.
- Customs notifies TM owner of seizures
- Customs destroys all seized goods unless the TM owner consents to other disposal and they are not a threat to consumer health and safety.
Seizures by Customs (cont.)

- Importer can secure a release showing the use was authorized or applied under the consent of the US owner

- Remedies for alleged infringing importer: (1) obliteration of the mark; (2) initiation of judicial forfeiture proceeding; (3) petition for mitigation or discretionary remission and appeal to ITC
National Intellectual Property Rights Coordination Center

- IPR Center is a group of federal agencies, led by ICE, working together to enforce IPR crimes and customs trade fraud
- IPR Center has a 3 part strategy:
  - Coordinates domestic and international investigations
  - Uses focused targeting and inspections to keep counterfeit and pirated goods out of U.S. supply chains, markets and streets
  - Provides training for domestic and international law enforcement
- There’s a link on their website to report a possible violation
  [http://www.ice.gov/partners/cornerstone/ipr/IPRForm.htm](http://www.ice.gov/partners/cornerstone/ipr/IPRForm.htm)
Who Does It?

Apple  
Black & Decker  
Bose  
Cisco  
John Deere  
Dell  
Disney  
3M  
Ford  
General Electric  
Gillette  
Hasbro  
Hewlett Packard  
Intel  
Mattel  
Microsoft  
Motorola  
Nike
Stopping Infringement at the Borders: The ITC

- Administrative Agency in Washington DC
  - Created by statute
  - Enforces Section 337 (19 U.S.C. § 1337), which is a trade statute
- Similar to U.S. District Courts in Some Aspects
  - Specialized: Focuses on intellectual property cases, including patents, trademark, and copyright
  - Stops importation into the U.S. or the sale after importation of goods that infringe a valid and enforceable U.S. patent, U.S. trademark, U.S. copyright, or some other intellectual property right
  - Remedy is prospective relief enforced at the borders by U.S. Customs and Border Protection for illegal US sales
# ITC Advantages

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<thead>
<tr>
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<th>District Court</th>
<th>ITC</th>
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<tbody>
<tr>
<td><strong>Jurisdiction</strong></td>
<td>In personam</td>
<td>In rem</td>
</tr>
<tr>
<td><strong>Injunction</strong></td>
<td>Not automatic</td>
<td>Automatic</td>
</tr>
<tr>
<td><strong>Speed</strong></td>
<td>24 months +</td>
<td>Trial in 6-9 months guaranteed</td>
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<td><strong>Judges</strong></td>
<td>Lots of varied cases</td>
<td>ALJs know IP</td>
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<td><strong>Help?</strong></td>
<td>On your own</td>
<td>ITC Staff attorneys</td>
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<tr>
<td><strong>Enforcement</strong></td>
<td>On your own</td>
<td>Automatic through Customs</td>
</tr>
<tr>
<td><strong>Trial?</strong></td>
<td>5-10%</td>
<td>40%+</td>
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Why Go to ITC: Broad Remedy

**Injunctions, Injunctions, Injunctions!**
- ITC issues exclusion order, barring import of infringing product
- ITC injunction automatic
- District court injunction post eBay injunctions rare

**ITC Injunction Far Reaching Against Foreign Respondents**
- Limited Exclusion Order: Excludes products made by or for infringer & any named respondents
  - Provides remedy for products imported into U.S. in other products
  - Excludes Infringer’s CUSTOMER’S products
- General Exclusion Order: Excludes products made by or for anyone
  - Excludes all products of a particular type

**ITC Can Issue Cease & Desist Order to Domestic Respondents**
- Prohibits sales, distribution, marketing of infringing goods
- Violation could result in daily fines of twice value of goods or $100K
Why Go to ITC: Time to Trial

ITC Provides Expedited Schedule: Critical Dates
- Trial 6-9 months after investigation begins
- Judges ruling on merits 9-12 months after investigation begins
- ITC’s final decision 12-15 months after investigation begins
- District Courts 24-36 months or more

Effects of ITC’s Expedited Proceedings
- Advantages to Complainant/Plaintiff
  - Complainant can prepare during due diligence
  - Respondent likely will not anticipate
  - Complainant makes first impression on ITC Staff and shapes issues
Why Go to ITC: Expertise

💡 Experienced Trial Judges:
  – Bench Trials: judge, not jury, decides case
  – ITC has judges who are very familiar with intellectual property law
  – Great forum for cases too complex for jury

💡 ITC Staff Attorney:
  – Third party represent public interest
  – Need to build relationship with and ITC experience counts

💡 Customs Enforces ITC Exclusion Order
  – Customs will seize at port
  – Complainant can work with Customs to stop shipments
Why Go to ITC: Higher Chance of Trial & Success

- > 40% of investigations go to trial
  - District Court ~5% of cases go to trial
- ITC rarely grants summary judgment on merits
- Historically, ITC has found infringement in 55% of cases that went to trial (1996-2003)

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- Violation: 22%
- No Violation: 18%
- Withdraw/Dismiss: 12%
- Settlement/Consent Order: 48%
ITC Drawbacks

- Costs and distractions are equivalent but much compressed
- Damages Unavailable - only “injunctive” relief
- Defendant can stay parallel district court litigation
  - Defendant can move to stay parallel district court case involving same patents/issues
  - ITC’s ruling is not binding on district court, but persuasive
- No jury - So must have persuasive merits
- Detailed complaint required
- ITC Requires Domestic Industry
  - Must establish existence of “domestic industry” to get remedy
Companies Going to ITC for TM Cases  
(since 2005)

- Certain Energy Drink Products, Inv. No. 337-TA-678 (pending) – complainant: Red Bull (copyright and TM)
European Perspective and Mechanisms for Enforcement
Grey Market Goods in the EU

- Bose Companion 3 Series II speakers shipped world-wide from Solon, OH for USD 189.00 (SRP in EU is ≈ USD 410.00)

- Apple iPod Touch MP3 Player shipped world-wide from Traverse City, MI for USD 199.99 (SRP in EU is ≈ USD 410.00)

- iRobot Roomba 560 vacuum cleaner shipped world-wide from Orlando, FL for USD 219.99 (SRP in EU is ≈ USD 550.00)
Knock-off Products in the EU

Images courtesy of http://www.plagiarius.de/e_index.html (Action Plagiarius)
Grey Market Goods in the EU (cont.)

- First sale doctrine
- No international exhaustion
- First sale in the United States = no exhaustion in the EU
- Parallel import from United States = trademark infringement in the EU
Customs Action Against Counterfeits

- European customs action
  - Community-wide law, procedures & decisions*
  - Competition between national customs*

- Pros
  - No official fees
  - No security deposits

- Cons
  - Counterfeits only

*for Community rights only
Customs Action v. Grey Market Goods

🔥 National customs action
  - National law, procedures & decisions
  - National authorities, attorneys

🔥 Pros
  - National rights sufficient
  - Grey-market goods covered

🔥 Cons
  - Official fees
  - Security deposits
When Do You Have to Go to Court?

In the past:
If importer does not agree to destruction ("opt in")

Today:
Only if importer objects to destruction ("opt out")
What Information is Necessary?

- Help the customs
  - Who are the bad guys?
  - Where do they come from?
  - How do they ship in the EU?
  - What do their goods look like?
  - What does the packaging look like?

- Do not stop genuine goods

- Do not file too much information
How Do the National Customs Compete?

File in DE for AT, DE, FR, NL, ES, PL and UK*

German customs
- Examine application
- Issue decision
- Forward to other offices
- Implement for Germany

Other customs implement decision for respective territories

*for Community rights only
Customs Action via German Customs

- Looking for work
  - No internal frontier since reunification
  - No external frontier since accession of PL, CS
  - Second largest harbor, third largest airport in EU
- “The big step forward”
  - Computer networks
  - Electronic databases
  - Filings online
  - Correspondence by e-mail
  - Efficient
- Cooperative
German Customs (cont.)
How Much Does it Cost?

- Application for customs action
  - Some hundred to some thousand Euros
  - Number of trademarks, products
  - Distribution network for genuine products
  - Information about counterfeits or parallel imports

- Security deposits*
  - EUR 10,000 to 25,000
  - Storage and destruction costs
  - Damage claims of importer if seizure is reversed

- Border seizure
  - Some hundred Euros if importer does not protest

*not required regarding counterfeits
Conclusion – Take-Aways
US Perspective

- Audit your supply chain, including license and distributor agreements
- Maintain end-user programs to help consumers confirm that the products they purchase are legitimate and otherwise educate your consumers
- Invest in policing programs
- Register marks at Trademark Office and Customs
- File with the ITC
EU Perspective

- Taking steps against parallel imports in the EU is easy: first sale doctrine, but no international exhaustion!
- EU application for customs actions are cheap: **No official fees, no security deposits regarding counterfeits!**
- The EU customs offices compete: File in one member state for all member states!
Questions?
Thank you!