



FISH & RICHARDSON

Counterfeiting & the Grey Market

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

Wednesday, June 23, 2010 *on the web*

Presented by:

Lisa Greenwald-Swire, Principal

Cynthia Walden, Head of Trademark and Copyright Practice

Jan Zecher, Principal



FISH & RICHARDSON



Lisa Greenwald-Swire
Principal
Silicon Valley
greenwald-swire@fr.com



Cynthia Johnson Walden
Principal
Boston
walden@fr.com



Jan Zecher
Principal
Munich
zecher@fr.com



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

FR Counterfeit Goods

– What are they?

- A counterfeit is a good which is identical but not genuine, or substantially indistinguishable from, a registered mark

FR 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.”
 - John Morton, Assistant Secretary for U.S. Immigration and Customs Enforcement – *The Wall Street Journal*, April 26, 2010.



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”

FR 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

FR 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

FR 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

FR 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

FR 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

FR 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

U.S. Customs and Border Protection
Securing America's Borders

IPRR INTELLECTUAL PROPERTY RIGHTS e-RECORDATION

Welcome to the Intellectual Property Rights e-Recordation (IPRR) application.

CBP IPR Enforcement

Copyright
Trademark

This new method for filing trademark applications will greatly decrease the amount of time and paperwork normally required, thus providing more timely enforcement of your intellectual property rights. (Please note: An electronic application for trademark is not available for "trademark" recordation; it is not yet available. For additional information, please refer to the "Remarks" and "Trademarks" sections at the bottom of this page.)

The filing of this electronic application will begin the administrative recordation process with CBP. A separate application is required for each recordation sought. Applications will be processed in the order in which they are received. The recordation fee for copyrights is \$50. The recordation fee for trademarks is \$190 per class of goods. By clicking the application on line, you agree to supply the documents specified in 19 CFR 133.2 for trademarks, 19 CFR 133.2 for copyrights, and request by CBP. Failure to do so will result in your recordation being suspended pending receipt of the documents.

We recommend that you have the following materials and information readily available before you begin the application process:

- ✓ U.S. Patent & Trademark Office Registration Number or the U.S. Copyright Office Registration Number
- ✓ Digital images of the protected work/work(s) in digital format that accurately reflect the right to be protected. Trademark made files are limited to 2MB.
- ✓ Filings in accordance with the applicable regulations
 - ▶ http://www.cbp.gov/iprr/133.2_et.pdf
 - ▶ http://www.cbp.gov/iprr/133.2_et.pdf

FORM OF PAYMENT

The recordation fee may be made either by credit card or check. Please be advised that applications paid for by check could be delayed up to six weeks. A normal mail is processed through CBP's mailroom to the Ronald Reagan Building, which includes the Intellectual Property Rights e-Recordation Office, where it is sorted for final delivery to the IP Branch. We apologize in advance for any delay the may cause in providing efficient service. On the other hand, applications paid for on line with a credit card are generally processed within three (3) business days.

RENEWALS OF EXISTING TRADEMARK AND COPYRIGHT RECORDATIONS

To renew your existing trademark or copyright recordation, please submit a e-mail message to iprr.actions@cbp.gov containing the information provided for 19 CFR 133.2 and 19 CFR 133.2, respectively. You will be contacted by a representative of the IP Branch regarding payment of the recordation fees and, if applicable, for additional information. Note that credit card payment for renewals is not yet available.

TRADENAME RECORDATIONS

To apply for a trade name recordation, please submit a e-mail message to iprr.actions@cbp.gov containing the information provided for 19 CFR 133.2 and 19 CFR 133.2. You will be contacted by a representative of the IP Branch regarding payment of the recordation fees and, if applicable, for additional information. Note that credit card payment for renewals is not yet available.

Paperwork Reduction Act Statement: An agency may not conduct or sponsor an information collection and a person is not required to respond to this information collection unless it displays a currently valid OMB control number. The estimated burden for this collection is 10 minutes per response. The estimated average time for completion of this collection is 2 hours per response. If you have any comments regarding the burden estimate you can write to: U.S. Customs and Border Protection, Information Services Branch, 300



Working with U.S. Customs (cont.)

FR 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/eallegations>

Customs and Border Protection (CBP) IMPORT/EXPORT LAW VIOLATION ALLEGA... Page 1 of 2

U.S. Customs and Border Protection
Securing America's Borders

e-Allegations Submission
Fields marked with an Asterisk (*) are required

Step 1 - Tell us about yourself

First Name: _____
Middle Name: _____
Last Name: _____
Phone Number: _____
Contact E-Mail: _____
Who are you? Select who you are

Step 2 - Tell us about the allegation

If this is an Immediate Threat to Loss of Life or Damage to Property? No If you selected "yes" contact 1-800-BE-ALERT (1-800-232-5378) immediately.

Violation Type: * Select Violation Type

Violation Description: *

Violator Product: *

Country Of Export: Select country

Product Category: 00 Select HTUS

Step 3 - Tell us about the alleged violator

Violator Name: *

Violator Address 1:

Violator Address 2:

Violator City:

Violator State: Select state

Province or U.S. Possession:



U.S. Customs and Border Protection at Work

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



Working with CBP: Notes to Remember

- ❖ 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.*)

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



Who Does It?

- FR Apple
- FR Black & Decker
- FR Bose
- FR Cisco
- FR John Deere
- FR Dell
- FR Disney
- FR 3M
- FR Ford
- FR General Electric
- FR Gillette
- FR Hasbro
- FR Hewlett Packard
- FR Intel
- FR Mattel
- FR Microsoft
- FR Motorola
- FR Nike



Stopping Infringement at the Borders: The ITC



UNITED STATES INTERNATIONAL TRADE COMMISSION



- ❖ 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



District Court



ITC

Jurisdiction

In personam

In rem

Injunction

Not automatic

Automatic

Speed

24 months +

Trial in 6-9 months guaranteed

Judges

Lots of varied cases

ALJs know IP

Help?

On your own

ITC Staff attorneys

Enforcement

On your own

Automatic through Customs

Trial?

5-10%

40%+



Why Go to ITC: Broad Remedy

FR Injunctions, Injunctions, Injunctions!

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

FR 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

FR 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

FR 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

FR 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

FR 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

FR ITC Staff Attorney:

- Third party represent public interest
- Need to build relationship with and ITC experience counts

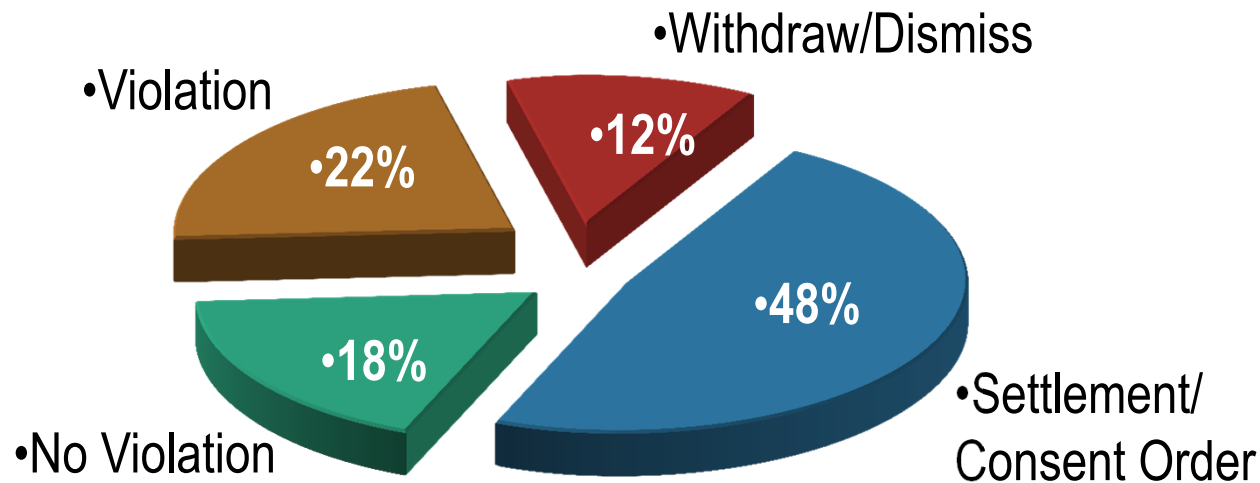
FR Customs Enforces ITC Exclusion Order

- 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)





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

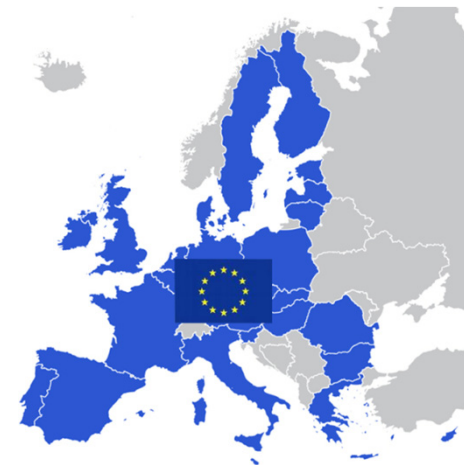


Companies Going to ITC for TM Cases (since 2005)

- FR Certain Energy Drink Products, Inv. No. 337-TA-678 (pending) – complainant: **Red Bull** (copyright and TM)
- FR Certain Lighting Control Devices, Inv. No. 337-TA-676 (2009) – complainant: **Lutron Electronics**. Outcome: **consent order entered**.
- FR Certain Hand-Held Meat Tenderizers, Inv. No. 337-TA-647 (2008) – complainant: **Jaccard Corp.** Outcome: complaint withdrawn
- FR Certain Cigarettes, Inv. No. 337-TA-643 (2009) – complainant: **Phillip Morris**. Outcome: **General exclusion order issued**
- FR Certain Hair Irons, Inv. No. 337-TA-637 (2009) – complainant: **Farouk Systems**, Houston TX. Outcome: **General exclusion order issued**
- FR Certain Digital Multimeters, Inv. No. 337-TA-588 (2008) – complainant: **Fluke Corp.** Outcome: **General exclusion order & Cease/Desist order issued**.
- FR Certain Hydraulic Excavators, Inv. No. 337-TA-582 (2009) – complainant: **Caterpillar**. Outcome: **General exclusion order & Cease/Desist order issued**.
- FR Certain Lighters, Inv. No. 337-TA-575 (2007) – complainant: **Zippo**. Outcome: **General exclusion order issued**.
- FR Certain Endoscopic Probes, Inv. No. 337-TA-569 (2008) – complainant **ERBE**. Outcome: no violation found.
- FR Certain Portable Power Stations, Inv. No. 337-TA-563 (2006) – complainant: **Roadmaster**. Outcome: **Limited Exclusion Order issued**.
- FR Certain Ink Markers, Inv. No. 337-TA-522 (2005) – complainant: **Sanford**. Outcome: **Consent order; Cease/Desist order; GEO issued**.
- FR Certain Automotive Measuring Devices, Inv. No. 337-TA-494 (2005) – complainant: **Auto Meter Products**. Outcome: **Limited Exclusion order and Cease/Desist Order**.



European Perspective and Mechanisms for Enforcement



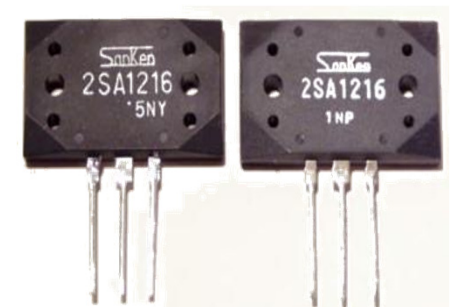


Grey Market Goods in the EU

- ❖ Bose Companion 3 Series II speakers shipped world-wide from Solon, OH for USD 189.00
(SRP in EU is \approx USD 410.00)
- ❖ Apple iPod Touch MP3 Player shipped world-wide from Traverse City, MI for USD 199.99
(SRP in EU is \approx USD 410.00)
- ❖ iRobot Roomba 560 vacuum cleaner shipped world-wide from Orlando, FL for USD 219.99
(SRP in EU is \approx USD 550.00)



Knock-off Products in the EU





Grey Market Goods in the EU (*cont.*)

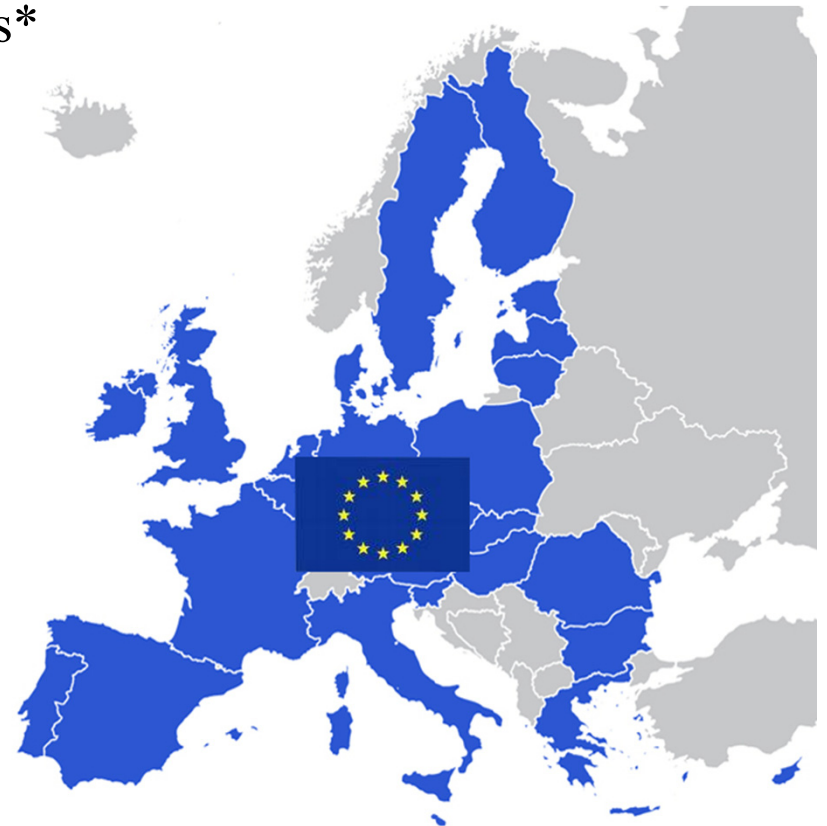
- FR First sale doctrine
- FR No international exhaustion
- FR First sale in the United States = no exhaustion in the EU
- FR Parallel import from United States = trademark infringement in the EU



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

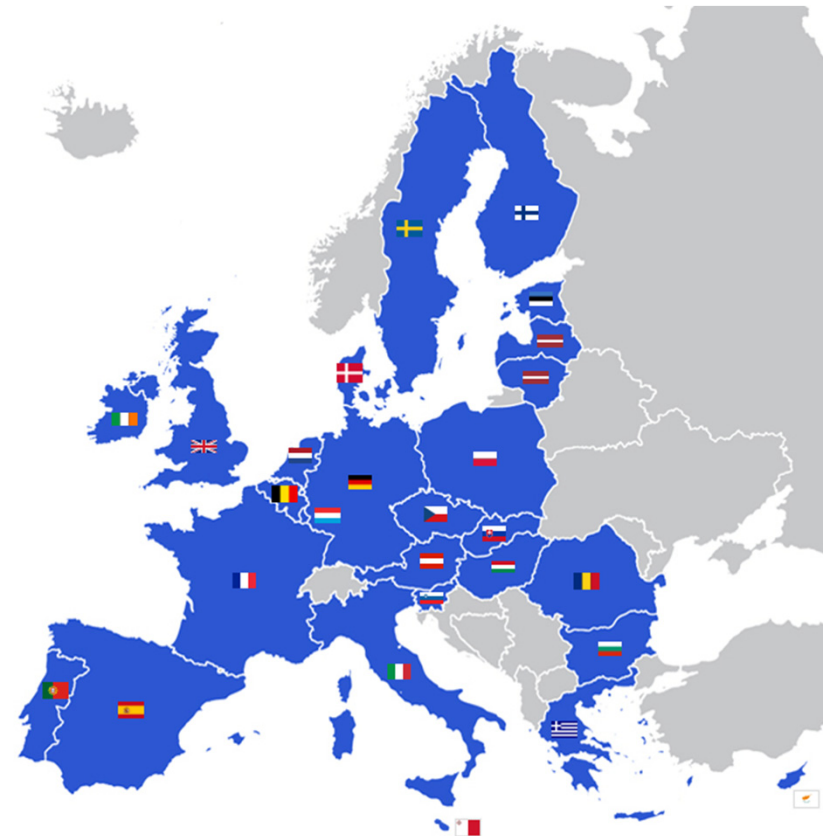
*for Community rights only





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

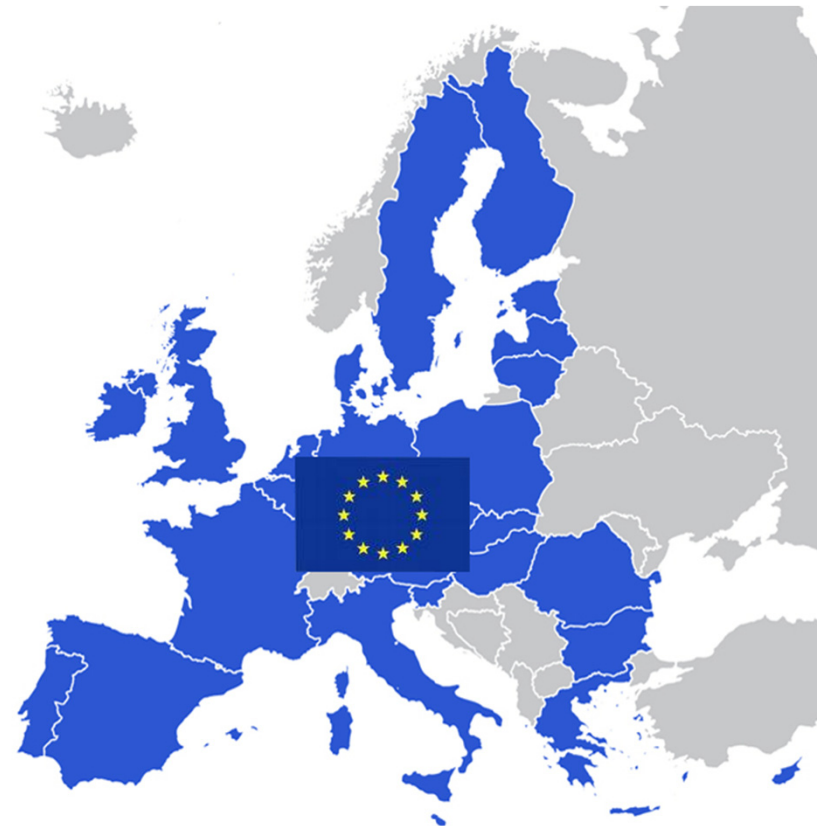




When Do You Have to Go to Court?

FR In the past:
If importer does not agree
to destruction (“opt in”)

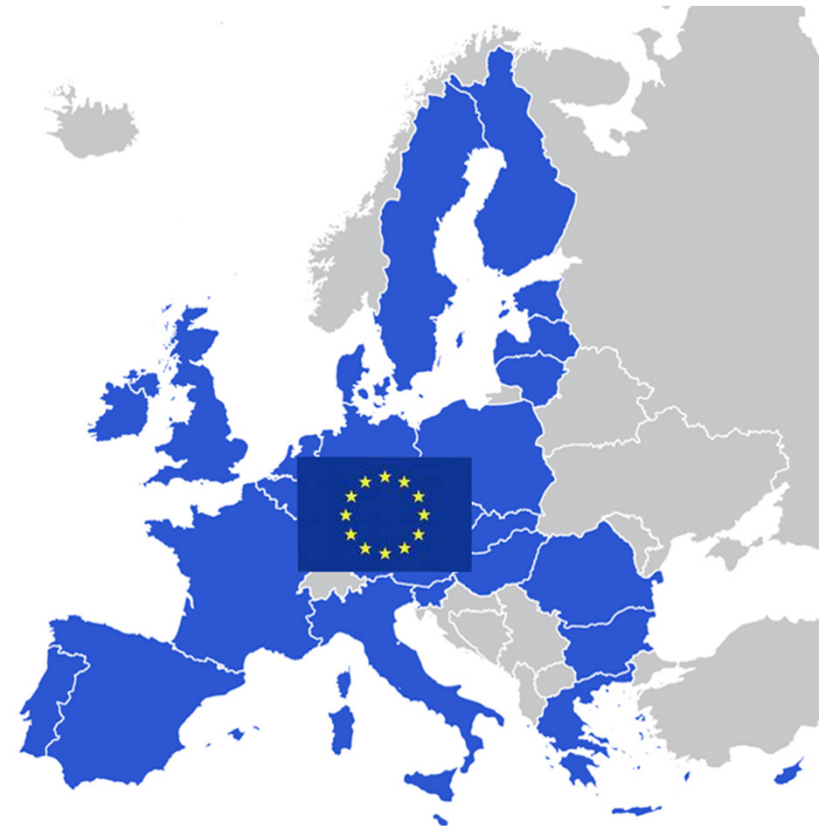
FR Today:
Only if importer objects
to destruction (“opt out”)





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?

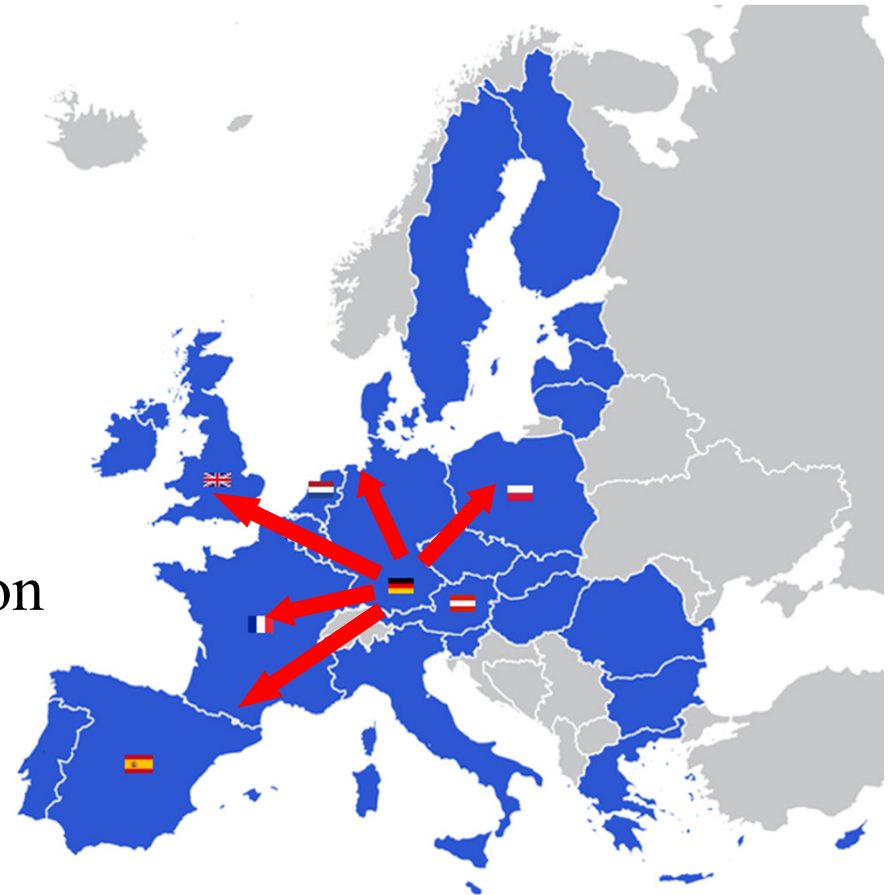
FR File in DE for AT, DE, FR, NL, ES, PL and UK*

FR German customs

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

FR Other customs implement decision for respective territories

*for Community rights only





Customs Action via German Customs

- FR Looking for work
 - No internal frontier since reunification
 - No external frontier since accession of PL, CS
 - Second largest harbor, third largest airport in EU
- FR “The big step forward”
 - Computer networks
 - Electronic databases
 - Filings online
 - Correspondence by e-mail
 - Efficient
- FR Cooperative





German Customs (cont.)

Bundesfinanzdirektion Südost (Antrag nach EU-Recht Art. 5 Abs. 1) - Microsoft Internet Explorer provided by Fish & Richardson P

File Edit View Favorites Tools Help

https://www.fms-zgr.zoll.de/ffwjform/display.do?%24context=2

ZGR | Kontakt | Impressum | Benutzerhandbuch | FAQ | Ergänzende Antragsformulare

75%

Ansprechpartner hinzufügen

- Antrag EU Art. 5 Abs. 1
 - Ansprechpartner
 - Ansprechpartner "Jan Zecher"
 - Ansprechpartner "Clifford Walker"
 - Zusammenstellung Schutzrechte
 - Schutzrecht
 - Schutzrecht Nr.: 7210164
 - Schutzrecht Nr.: 7210123
 - Schutzrecht Nr.: 7210131
 - Schutzrecht Nr.: 7210149
 - Schutzrecht Nr.: 1029990
 - Schutzrecht Nr.: 7472533
 - Schutzrecht Nr.: 1029958
 - Verpflichtungserklärung
 - Original
 - Liefer- und Transportangaben (C)
 - Beschreibung (Original)
 - Beispielhafte Abbildungen vor
 - Verpackung (Original)
 - Anlage
 - Sonstige Produkthinweise (Orig)
 - Anlage
 - Zolltarifposition (Original)
 - Schutzrechtsverletzung (SRV)
 - Liefer- und Transportangaben (S)
 - Beschreibung (SRV)
 - Anlage
 - Verpackung (SRV)
 - Anlage
 - Sonstige Produkthinweise (SRV)
 - Anlage
 - Zusatzinformation
 - Antrag abschließen

ZOLL

Antragsart: EU Art. 5 Abs. 1 Neuantrag
Antrag-/Vers.Nr.: 0000001982 / 0001
Aktenzeichen:

Status: angelegt
Antragsdatum: 12.11.2009
Gültigkeitsdatum:

Antragsteller (Rechtsinhaber)

Name: Power Integrations, Inc.

Kurzname: PI

Straße: Hellyer Avenue

Hausnummer: 5245

Postleitzahl: CA 95138

Ort: San Jose

Land: Vereinigte Staaten / US

Mehrwertsteuernummer:

Telefon: +1 (408) 4149200

Telefax: +1 (408) 4149201

Mobiltelefon:

E-Mail Adresse: cliff.walker@powerint.com

Internetadresse: www.powerint.com

Eigenschaften des Antragstellers

☒ Rechtsinhaber (Inhaber des Rechts)

☐ Vertreter des Rechtsinhabers

☐ Nutzungsberechtigter des Rechts

☐ Vertreter des Nutzungsberechtigten

Internet

100%



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?



FISH & RICHARDSON

Thank you!