The Surprising Reach of US Anti-Counterfeiting Laws

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Owners of US trademark rights, regardless of nationality, have substantially greater ability to seek redress for counterfeiting than many of them realize. This runs counter to the perception some may hold that anti-counterfeiting laws are not as aggressive in the United States as they are in countries such as France and Italy where luxury goods are particularly important to the national economy.

A study of cases against accused counterfeiters demonstrates that federal court judges at both the trial and appellate level are quite willing to stretch the application of both civil and criminal anti-counterfeiting laws in a manner calculated to protect not only US consumers but also both foreign and domestic owners of US trademark rights. In so doing, the courts have not hesitated to brush aside certain limitations apparent on the face of those laws in order to address the growing problem of counterfeit merchandise in the United States.

This article examines the outer contours of protection US courts have afforded aggrieved trademark owners who are the victims of counterfeiting. It is written in the hope more potential claimants will realize effective protection is available to them.

Extent and Severity of the Problem in United States

While the impact of a few fake Prada handbags on the arms of thrifty fashionistas may seem minimal, counterfeits cost the US economy at least $200 billion a year.[1] Moreover, it is estimated that sales lost by the trademark owners have resulted in the loss of at least 750,000 US jobs annually.[2] Such losses are growing exponentially, so much that approximately 5-7 percent of total world trade is in counterfeit goods, with no end or abatement in sight.[3]

In addition to this economic harm, counterfeits often pose dangerous health and safety risks that threaten to overwhelm already-strained regulatory authorities. Prescription drug counterfeiters commonly cut corners on quality controls, leading to drugs that contain inaccurate levels of the drugs's active ingredients or that contain toxic ingredients.[4] Counterfeit electronics that have flooded the marketplace, such as network routers and circuit breakers, can create network security breaches and dangerous electrical fires, threatening not only corporate but even national security.[5]

The federal government has tried numerous approaches to combat and contain the growth of counterfeit goods in the United States, including stricter enforcement of border security and port-inspection regulations. Corporate shoulders, however, continue to bear the primary burden of policing counterfeit goods, as brand owners often are in the best position to uncover counterfeits and investigate their sources. Even so, corporate investigation can go only so far without adequate governmental support.

US Anti-Counterfeiting Laws

Both civil and criminal remedies are available to victims of counterfeiting under US law. Civil penalties for counterfeiting are part of the federal Trademark Act of 1946, as amended, commonly known as the Lanham Act. By its terms, the Lanham Act applies to trademarks and other designations of origin used in US

commerce. Section 34 of the Lanham Act[6] limits the term "counterfeit mark" to counterparts of marks that are registered on the principal register in the US Patent and Trademark Office[7] and Section 45 of the Lanham Act defines "counterfeit" as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark."[8]

The relevant portion of Section 42 of the Lanham Act[9] prohibits the importation of counterfeits into the United States:

> Except as provided in subsection (d) of section 526 of the Tariff Act of 1930 [19 U.S.C. § 1526(d)], no article of imported merchandise which shall copy or simulate the name of any domestic manufacture, or 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, or which shall copy or simulate a trademark registered in accordance with the provisions of this Act . . . shall be admitted to entry at any customhouse of the United States;[10]

Relevant sections of the Tariff Act, 19 U.S.C. §§ 1526(e)-(f), adopt the Lanham Act definition of a "counterfeit mark" and provide additional civil penalties for victims of counterfeiting:

> (e) Any such merchandise bearing a counterfeit mark (within the meaning of section 1127 of Title 15) imported into the United States in violation of the provisions of section 1124 of Title 15, shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of customs laws. …
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> (f) Civil Penalties
> (1) Any person who directs, assists financially or otherwise, or aids and abets the importation of merchandise for sale or public distribution that is seized under subsection (e) of this section shall be subject to a civil fine.
> (2) For the first such seizure, the fine shall be not more than the value the merchandise would have had if it were genuine, according to the manufacturer's suggested retail price, determined under regulations promulgated by the Secretary.[11]

Lastly, the Trademark Counterfeiting Act, 18 U.S.C. § 2320 provides criminal penalties for anyone who "intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services." The statute defines a "counterfeit mark" as:

> (A) a spurious mark—
> (i) that is used in connection with trafficking in goods or services;
> (ii) that is identical with, or substantially indistinguishable from, a mark registered for those goods or services on the principal register in the United States Patent and Trademark Office and in use, whether or not the defendant knew such mark was so registered; and
> (iii) the use of which is likely to cause confusion, to cause mistake, or to deceive....[12]

With these laws as a starting point, trademark owners may be surprised to learn that US courts have imposed liability for counterfeiting even when one of the following conditions is present:

1. The goods are not imitations of any genuine counterparts;
2. The defendant did not sell the goods in the United States;
3. Purchasers knew the knock-off goods were not genuine;
4. The trademark owner had failed to register the mark copied by defendants; or
5. The goods are genuine and bear genuine trademarks.

Following is a discussion of various cases in which the trademark owner was granted relief from counterfeiting under each of these scenarios.

Aggressive Protection for Trademark Owners

Counterfeits Need Not Be Knock-Offs of Genuine Trademarked Goods

United States v. Able Time Inc.[13] is the latest in a string of cases decided under the Tariff Act that has steadily expanded the protection available to trademark owners targeted by counterfeiters. The US Bureau of Customs and Border Protection seized watches imported by defendant Able Time that bore the counterfeit Tommy Hilfiger mark "TOMMY" and charged defendant a fine for the attempted importation. The defendant argued that the civil penalty imposed by US Customs was unlawful because, under Section (f)(2) of the Tariff Act (see above), the trademark owner must sell "genuine"

counterparts to the allegedly counterfeit merchandise before a civil penalty maybe imposed.[14]

The district court had agreed with the defendant and granted summary judgment as a matter of law that the imported watches were not counterfeit goods under the Tariff Act. The government appealed, and the appellate court reversed, holding the Tariff Act does *not* require the owner of a registered mark to sell the same type of goods in order for the Tariff Act to apply to the counterfeit goods. The appellate court stated that the reference to "genuine" in Section (f)(2) of the Tariff Act affects only the calculation of the civil penalty, not the threshold issue of whether or not a penalty should apply. Further, the appellate court held that neither section of the Lanham Act incorporated into the Tariff Act—defining the term "counterfeit mark"—includes such a requirement.

Perhaps because it knew it was stretching the application of the Tariff Act, the appellate court explained that applying a civil penalty in this case would combat the very harm identified in the legislative history of the Tariff Act by protecting consumers from being misled into purchasing watches they mistakenly believe were authorized by Tommy Hilfiger.[15]

The appellate court also rejected the defendant's argument that, without the requirement that the trademark owner sell similar branded goods, it would in essence own a right "in gross, *i.e.,* a trademark not limited to specific goods." The district court had granted summary judgment in large part because the government's initial interpretation of the case seemed to give a right in gross to the trademark owner, contrary to the principles of US trademark law. The appellate court distinguished these concepts: Although the genuine trademark must be tied to specific goods and services to be viable, it need not be used on the same type of goods as those bearing the counterfeit marks.[16]

The appellate court reversed and remanded to determine (1) whether the mark on the watches is identical to or substantially indistinguishable from the registered mark pursuant to 15 U.S.C. § 1127, and (2) whether the offending mark copies or simulates the registered mark pursuant to 15 U.S.C. § 1124 (Lanham Act sections 42 and 45).

United States Provides Remedy for Counterfeit Goods Sold Outside United States

The remedies of the Lanham Act expressly apply only to such wrongful conduct as is "in commerce," defined in the Act as "all commerce which may be lawfully regulated by Congress."[17] Although the defendants in *Reebok Int'l Ltd v. Marnatech Enters.*[18] were a US resident alien and a California corporation, the accused sales of counterfeit REEBOK shoes took place in Mexican border towns, such as Tijuana. The district court had entered a preliminary injunction against such sales, and on appeal defendants argued the lower court had neither the jurisdiction nor the authority to enjoin defendants' conduct outside the United States.[19]

In affirming the injunction, the appellate court quoted the Supreme Court in *Steele v. Bulova Watch Co.*[20] for the proposition that the Lanham Act provides a "broad jurisdictional grant." It then laid out the three requirements for assuming extraterritorial jurisdiction: (1) "there must be some effect on American foreign commerce;" (2) "the effect must be sufficiently great as to present a cognizable injury to plaintiffs;" and (3) "the interests of and links to American foreign commerce must be sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority."[21]

The appellate court easily found the first two of these factors satisfied, since defendants "organized and directed the manufacture of counterfeit REEBOK shoes from the United States," and their sales of counterfeit REEBOK shoes "decreased the sale of genuine REEBOK shoes in Mexico and the United States." Finding sufficient interests of and links to American commerce was more complicated, however, and required the balancing of seven relevant factors, the most troubling of which for the US court was the fact that Mexico has civil and criminal trademark laws of its own and had begun proceedings against defendants in Mexico. Ultimately, the court was swayed by the fact that defendants' principal places of business and the "vast majority of their assets" were in the United States, coupled with the observation that their unlawful sales took place largely in Mexican towns that border the United States and were directed primarily toward US commerce and consumers. The court was convinced that many if not most of the purchasers of the counterfeit shoes resided in the United States and crossed the border to buy goods at a lower price.

Lanham Remedy Granted Even Where Purchasers Were Not Confused

The primary goal of the Lanham Act is not to protect trademark owners but to protect consumers from confusion as to the source or sponsorship of goods and services.[22] Nevertheless, the Fifth Circuit Court of Appeals has held that the Lanham Act may be violated even when purchasers knew goods were counterfeit and intended to buy them as such, because people other than the initial purchasers might later be confused. In *United States v. Yamin,*[23] US Customs had seized 324 replica Rolex,

Piaget, Cartier, and Gucci watches, along with invoices indicating more than 6000 counterfeit watches had been sold over the preceding 17 months.

Quoting from decisions of both the Eighth and Eleventh Circuits, the court stated:

> The [Trademark Counterfeiting Act's] application is not restricted to instances in which direct purchasers are confused or deceived by the counterfeit goods. Section 2320(a) is not just designed for the protection of consumers. [It is] likewise fashioned for the protection of trademarks themselves and for the prevention of the cheapening and dilution of the genuine product.
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> It is essential to the Act's ability to serve this goal that the likely to confuse standard be interpreted to include post-sale confusion. A trademark holder's ability to use its mark to symbolize its reputation is harmed when potential purchasers of its goods see unauthentic goods and identify those goods with the trademark holder. This harm to trademark holders is no less serious when potential purchasers encounter these goods in a post-sale context. Moreover, verbal disclaimers by sellers of counterfeit goods do not prevent this harm.[24]

In 2005 a similar result was reached when the Tenth Circuit joined the Second, Fifth, Eighth, and Eleventh Circuits in holding that post-sale confusion is actionable as counterfeiting. In *United States v. Foote*,[25] the defendant openly advertised his business, called "Replicas," as offering high-quality reproductions of brand-name products, such as Mont Blanc pens. Central to the court's holding that such replicas constituted unlawful counterfeits was the fact that the defendant sold goods from which the original tags had been removed and replaced with tags bearing various famous trademarks.

Despite Language of Act, Mark Need Not Be Registered

As noted above, the Trademark Counterfeiting Act prohibits the use of a mark that is substantially indistinguishable from a "registered mark."[26] The defendants in *United States v. Marziotto*,[27] appealed the district court's finding of liability under the Act on the ground they should have been allowed to introduce evidence, in the form of a certificate from the US Patent and Trademark Office, that the mark concededly used by defendants was not registered by the trademark owner.[28] The court had been swayed by the fact that the unregistered mark fully incorporated the trademark owner's registered mark, the "skyline mark," adding only certain elements to the background and periphery.

The appellate court affirmed the district court and said the central issue in the case was not whether the mark used by defendants was unregistered but rather whether it was substantially indistinguishable from the registered mark incorporated therein. The court reasoned that one feature of a mark may be dominant and thus may be given greater force and effect than others in resolving the question of confusing similarity.[29]

In similar counterfeiting situations involving an unregistered trademark, courts also have relied on common law authority, Rule 65 of the Federal Rules of Civil Procedure, and the All Writs Act, 28 U.S.C. § 1651, to condone action against counterfeiters.[30]

Allegedly Counterfeit Goods Are Genuine and Bear Genuine Trademarks

In *Rolex Watch USA Inc. v. Meece*,[31] the defendant sold three types of goods: (1) parts designed for Rolex watches; (2) genuine new Rolex watches to which he added non-genuine parts ("enhanced" new watches); and (3) "converted" used watches that contained non-genuine parts.[32] The defendant was not affiliated with or authorized by Rolex. He included in his advertising that his replacement parts were not genuine Rolex parts and the Rolex warranty was voided once any of his replacement or additional parts were added to genuine Rolex watches. The district court enjoined sales of the "converted" watches only and found that Rolex was not entitled to an award of profits because the "profits derived from the sale of converted infringing watches were de minimis."[33]

The appellate court held that the injunction properly encompassed both "enhanced" new watches and "converted" used watches.[34] The court noted that the Lanham Act prohibits a party from making changes in integral parts of a product and then selling the modified product under the original trademark without full disclosure.

Moreover, the court noted that other courts have found that the use of genuine trademarks on genuine goods can constitute counterfeiting if the goods are modified using generic or used parts in a way that deceives the public.[35] The court found support in a decision by the Seventh Circuit Court of Appeals that the act of boxing non-genuine products in genuine boxes constitutes trademark counterfeiting[36] and another (from the Ninth Circuit) holding that mislabeling the speed designation on a computer chip can convert an otherwise genuine chip bearing a genuine mark into a counterfeit.[37]

In the present case, there was considerable evidence that the defendant's activities constituted trademark counterfeiting, since he modified the watches and added non-Rolex accoutrements. Those activities voided the Rolex warranty, yet the trademark on the products sold by defendant suggested otherwise. The action was remanded for a determination of whether or not the defendant's activities resulted in "counterfeit" goods as defined by Section 1116(d) and Section 1127; and, if so, whether or not Rolex was entitled to the treble profits mandated under Section 1117(b) for trademark counterfeiting.

Less than a year after the Fifth Circuit's *Meece* decision, the Ninth Circuit decided an almost identical case, *Rolex Watch, U.S.A., Inc. v. Michel Co.*,[38] in which it agreed with the Fifth Circuit's reasoning.[39] Further, the Ninth Circuit concluded that the alterations the *Michel Co.* defendants made to the used Rolex watches resulted in an entirely new product. It therefore completely enjoined the use of Rolex's trademarks on the defendants' altered watches, even those bearing genuine Rolex movement and casing.

Lessons Learned

It is axiomatic that rights that are not enforced eventually are lost, and these cases provide strong encouragement to owners of US trademark rights to enforce those rights in court. The rulings discussed above effectively expand the reach of US anti-counterfeiting laws, but do so in a manner consistent with the spirit and intent of those laws, if not their letter. They show a pragmatic recognition by judges across the country that trademark rights have both societal and economic value and should be protected from infringement and counterfeiting even when the defendants' activities take novel forms not anticipated by the applicable statutes. This should come as welcome news to the thousands of trademark owners who continue to lose sales to "replicas," knock-offs, and other counterfeits.

1. Georgina Coolidge, Counterfeit, pirated goods costing U.S. billions, Reuters (June 17, 2008), *http://uk.reuters.com/article/rbssHealthcareNews/idUKN1737193920080617*.
2. *Id.*
3. Counterfeiting & Piracy— The Facts, The Brand Protection Alliance (2009), *http://www.brandprotectionalliance.org/about/piracy.html*.
4. Counterfeit Drugs and Travel, Centers for Disease Control and Prevention (last updated December 22, 2008), *http://wwwn.cdc.gov/travel/content/counterfeit-drugs.aspx*.
5. John Markoff, "F.B.I. Says the Military Had Bogus Computer Gear," *The New York Times* (May 9, 2008), *http://www.nytimes.com/2008/05/09/technology/09cisco.html*; *See also*, Cheryl D. Smith, "Counterfeiting and Piracy: How Pervasive Is It?," Counterfeits Can Kill (2008), *http://counterfeitscankill.com/news/?fa=show&id=3352&cms=1*.
6. 15 U.S.C. § 1116 (2008).
7. (B) As used in this subsection the term "counterfeit work" means—

   (i) 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; or

   (ii) ... but such term does not include any mark or designation used on or in connection with goods or service s of which the manufacturer or producer was, at the time of the manufacture or production in question authorized to use the mark or designation for the type of goods or services so manufactured or produced, by the holder of the right to use such mark or designation. 15 U.S.C. § 1116 (d)(1)(B) (2008).
8. *See* 15 U.S.C. § 1127 (2008).
9. 15 U.S.C. § 1124 (2008).
10. *Id.*
11. 19 U.S.C. §§ 1526(e)-(f) (2008).
12. 18 U.S.C. § 2320 (2008).
13. US v. Able Time Inc., 88 U.S.P.Q.2d 1510 (9th Cir. 2008).
14. *Id.* at 1515 (citing 19 U.S.C. § 1526(f)).
15. *Id.* at 1517.
16. *Id.* at 1517–1519.
17. *See, e.g.*, 15 U.S.C. §§ 1114 (1)(a), 1127 (2008).
18. Reebok Int'l Ltd v. Marnatech Enters., 23 U.S.P.Q.2d 1377 (9th Cir. 1992).
19. *Id.*
20. Steele v. Bulova Watch Co., 344 U.S. 280 (1952).
21. *Reebok Int'l Ltd.*, 23 U.S.P.Q.2d at 1378.
22. *See, e.g.*, Safeway Stores, Inc, v. Safeway Properties, Inc., 134 U.S.P.Q. 467 (2d Cir. 1962).
23. US v. Yamin, 868 F.2d 130, 10 U.S.P.Q.2d 1300 (5th Cir. 1989).
24. *Id.* at 1301–1302 (internal citations and quotation marks omitted).
25. United States v. Foote, 413 F.3d 1240, 75 U.S.P.Q.2d 1353 (10th Cir. 2005).
26. 18 U.S.C. § 2320 (2008).
27. United States v. Marziotto, 7 U.S.P.Q.2d 1507 (2d Cir. 1988).
28. *Id.*
29. *Id.* (citing Boise Cascade Corp. v. Mississippi Pine Mfrs. Ass'n, 164 U.S.P.Q. 364, 368 (T.T.A.B. 1969)).
30. David C. Hilliard, Janet A. Marvel & Joseph Nye Welch II, Trademarks and Unfair Competition Deskbook § 6.11[3] (4th ed. 2009) (*citing* Pepe (U.K.), Ltd. v. Ocean View Factory Outlet Corp., 770 F. Supp. 754 (D.P.R. 1991) (holding that even though the infringing marks on the defendant's goods do not exactly replicate plaintiff's registration drawings, the infringing marks are exact reproductions of plaintiff's marks as they appear on genuine goods in the marketplace and therefore counterfeits)).
31. Rolex Watch USA Inc. v. Meece, 48 U.S.P.Q.2d 1589 (5th Cir. 1998).
32. *Id.*
33. *Id.* at 1594.
34. *Id.* at 1598.
35. *Id.* (citing Westinghouse Elec. Corp. v. General Circuit Breaker & Electric Supply, Inc., 41 U.S.P.Q.2d 1741 (9th Cir. 1997)).
36. General Elec. Co. v. Speicher, 877 F.2d 531, 534 (7th Cir. 1989).
37. Intel Corp. v, Terabyte Int'l, Inc. 6 F.3d 614, 619–620 (9th Cir. 1993).
38. Rolex Watch, U.S.A., Inc. v. Michel Co., 179 F.3d 704 (9th Cir. 1999).
39. *Id.* at 710.