

Combating Counterfeiting In An Electronic Era

Camille M. Miller
and Jennie A. Taylor

COZEN O'CONNOR

The prominence of the Internet in today's culture and its continually evolving online capabilities are not only providing more opportunity for growth and expansion of industries, but also for robust counterfeiting operations. This article discusses the sale of counterfeit goods on the Internet and the mechanisms available to brand owners to protect their intellectual property rights through enforcement and preventive measures.

Counterfeiting Is A Serious Problem

The costs associated with counterfeiting are both economic and social, as well as consumer and producer-based. According to the U.S. Chamber of Commerce, counterfeiting activities cost the U.S. economy more than 250 billion dollars and 750,000 jobs a year.¹ While common impressions of counterfeit goods may be a knock-off purse purchased from a street vendor in New York City or a pair of designer sunglasses bought at an online auction, other forms of counterfeit products include the unauthorized sale of pharmaceuticals, counterfeit cosmetics, and counterfeit aviation parts. While a knock-off designer purse is not likely to kill you, substandard airplane parts or unapproved drugs just might.

Moreover, the revenue stream produced by the sale of counterfeit items may trace to unethical ends and support illegal efforts such as child labor, terrorism and organized crime. Such counterfeiting also affects the brand owners by decreasing their profits and diluting their intellectual property rights. Thus, the counterfeiting industry implicates a spectrum of economic and societal costs, as well as ethical issues.

Given the seemingly boundless scope of the Internet and the anonymity of online counterfeiters, brand owners face an increasingly difficult challenge in protecting their intellectual property rights and maintaining the goodwill associated therewith. This exciting Internet generation, while promising for information exchange and developing business opportunities, presents considerable challenges for preventing counterfeiting and enforcing intellectual property rights.

Protecting Your Brand: Registering Your Intellectual Property

The first and most primal step that a brand owner can take to protect its brand is to register its trademarks and copyrights with the applicable trademark and copyright offices. This fundamental step in intellectual property protection provides a springboard from which enforcement measures may originate and is a particularly cost-effective approach when resources are scarce. It requires the brand owners to review their intellectual property portfolios, identify gaps, and submit the appropriate applications for federal registration.

The lack of formal protection by the trademark and copyright offices is not fatal to enforcing one's rights. In many jurisdictions, trademark rights vest upon use of the mark, and copyrights are effectuated upon creation of the work. Thus, although trademark and copyright registration are preferable, as they more strongly support enforcement efforts, such registration is not mandatory to enforce a brand owner's rights.

Protecting Your Brand: Enforcement Mechanisms

Regardless of whether brand owners federally protect their trademarks and copyrights through registration, they may enforce their

intellectual property rights against online infringers by sending demand letters, also known as cease-and-desist letters or notice-and-takedown letters. In addition to demanding that the infringer discontinue use of the trademarks and copyrighted work, the brand owners may demand an accounting of the profits in order to recover the costs of sending the demand letters. Further, the brand owner may demand that the infringer reveal the source of any vendor from whom he acquired the counterfeit goods.

If the domain owner's information is unavailable or the domain owner is unresponsive to the demand letters, brand owners may pursue alternate avenues for removing the infringing content from the site or shutting down the site, depending on the facts and the intellectual property rights at issue.

The brand owner may target the Internet service provider (ISP) responsible for hosting the subject website by sending the ISP a demand letter. In the letter, the brand owners may point to the terms and conditions to which the domain owner agreed when registering with the ISP. Often, the terms and conditions include language stating that the domain owner agrees to refrain from posting information on its site that infringes on the intellectual property rights of third parties.

The facts of each case will dictate the best enforcement approach for brand owners, depending on the jurisdiction in which they seek enforcement of their rights. For example, in the United States, the ISPs are not required by law to remove infringing trademark information from the site. However, if the infringing content is copyright protected, the ISP, once it receives notice of infringement, must remove the infringing material in order to avoid liability for copyright infringement under the Digital Millennium Copyright Act (DMCA).² By sending a DMCA notice to the ISP, the brand owner places the Internet service provider on notice of the infringing material on the subject website. While DMCA notices are specific to the United States, other jurisdictions have similar avenues of protection. As such, it is important for brand owners to federally register their trademarks and copyrights when possible.

Perhaps the most promising and sustainable approach to combating counterfeiting is through anti-money laundering laws. These laws make counterfeiting financially unattractive by cutting the stream of money to the counterfeiters. For example, the Bank Security Act and its many amendments make it illegal for banks to hide money derived from criminal activity and require banks to report cash transactions over \$10,000 via the Currency Transaction Report. Similarly, the Patriot Act increases the exchange of information among financial institutions, requires verification of customer identity, and requires anti-money laundering programs across the financial services industry.

A practical example of this increased regulation is PayPal, a mechanism of online payment for goods purchased on the Internet, such as online auctions. PayPal is a global financial institution, and is, therefore, subject to the anti-money laundering laws of the United States. In practice, PayPal collects information about the individuals setting up a PayPal account and has policies and procedures to detect, prevent and report any suspicious activity. As a global financial institution, PayPal screens its customer lists against government watch lists. According to its Acceptable Use Policy, PayPal prohibits users from using its services for "the sales of products or services identified by government agencies to have a high likelihood of being fraudulent."³ Thus, when enforcing one's intellectual property rights, brand owners may directly contact PayPal to alert it of the infringing use. Assuming PayPal refuses further business with the counterfeiting entity, the entity has fewer prospects for online financial transactions.

While perhaps most promising, the anti-money laundering laws may prove challenging to implement. Their dynamic and compli-

cated nature requires interdisciplinary collaboration from the private sector and various government agencies both within the United States and abroad.

Protecting Your Brand: Preventive Mechanisms

In addition to enforcement mechanisms, brand owners may also use preventive measures to protect against trademark infringement, such as recording trademark registrations with customs agencies in various countries. However, this approach is limited by the availability of customs protection in specific countries and the ability of the brand owner to obtain a federal registration or, in some cases, an international registration in the country in which it seeks to register the trademark with customs.

For example, in the United States, brand owners with a United States federal trademark registration may record the registration with U.S. Customs and Border Protection. The fee is only \$190 per class of goods for each trademark, and the customs registration must be renewed at the same time as the U.S. trademark registration. Through educating the customs officials on the brand owner's goods, providing them with information of authorized manufacturers and distributors, and identifying particular ports where suspected counterfeit goods enter the country, brand owners have successfully worked with U.S. Customs officials in confiscating counterfeit goods at the border.

Though the prevalence of online sales makes it more difficult to track small shipments of counterfeit goods into the country through the mail, officials have had success with tracing counterfeit goods to larger counterfeiting operations. Notably, Canada and Mexico do not have trademark recordation procedures in place with their customs departments, making registration with U.S. Customs particularly important for goods being shipped through and from Canada and Mexico.

The European Union (EU) also enforces and protects intellectual property rights by using customs monitoring. The EU Customs Regulation⁴ provides the framework for customs action against suspected counterfeit goods. Although the EU-wide and national customs application have been harmonized in all EU member states, there is currently no unified EU customs entity. Instead, the member states work together to exchange information through a common information system. In order for a brand owner to file an EU application for action by customs authorities, the brand owner must have applied for or registered a Community intellectual property right, including Community trademarks, supplementary protection certificates, Community designations, Community-protected designations of origin, Community-protected geographical indications, Community-protected geographical designations for spirit drinks, or Community-protected plant variety rights. If the brand owner only has national, European, or international rights, the brand owner may only seek customs protections with the specific countries from which its rights derive.

Chinese Customs affords border protection for both trademarks that are registered, enforcement *ex officio*, and trademarks that are not registered, enforcement by application. Similar to the procedure in the United States, enforcement *ex officio* is appropriate where the registered trademark is recorded with the General Administration of Customs. Under this approach, customs officials may seize and detain goods without the direction of the trademark owner to specific shipments. In contrast, enforcement by application allows the trademark owner of an unregistered, well-known mark or an unrecorded, registered mark to file an application with Customs to request that a specific shipment be withheld. This latter form of customs protection requires more specific information and tracking by the brand owner in order to alert the customs officials to a particular source.

Another cost-effective preventive approach to trademark protection is securing the supply chain. By carefully screening vendors, brand owners reduce the risk of vendors selling and distributing the goods outside the distribution chain and from personally profiting from those sales. Further, brand owners may also inquire about vendor information when they learn of infringing uses of their marks. The brand owner may, in its demand for the infringing use to cease, also demand information about where the entity has acquired the goods bearing the trademark. This information allows the brand owner first to determine if the goods being sold are authentic or counterfeit, and second, if authentic, to determine if the goods have been acquired from an authorized vendor. For example, if a brand owner identifies that a seller on eBay is selling counterfeit goods, the brand owner may demand that the seller reveal the source of the goods.

Brand owners may further prevent counterfeiting by regularly changing their product design or incorporating anticopying mechanisms into their product designs. Modifying the design allows the brand owner to track more easily counterfeit products. For example, the brand owner can monitor online auctions and review the packaging of the goods for sale, noting any differences between those and the authentic goods. Moreover, innocent consumers purchasing counterfeit goods may complain to the brand owner that they did not receive the most recent version of the goods, thereby alerting the brand owner that counterfeit goods are being sold. A brand owner's incentive to continue to expend resources to redesign their goods comes from having consumers purchase authentic goods. Thus, it is necessary to educate consumers as to the effects of purchasing counterfeit products.

Similarly, by incorporating anticopying mechanisms, such as encryption, or including a specific tag on the product, brand owners may prevent counterfeiters from accessing and easily replicating authentic goods. For example, brand owners may design their websites in a manner that prevents people from printing the website pages in their entirety; or brand owners may design their products to integrate a tag that allows only the brand owner and enforcement entities to discern readily between counterfeit and authentic products.

Conclusion

The expansion of the Internet presents brand owners with increasing challenges to prevent infringement on their intellectual property rights cost effectively and to enforce those rights when infringement has occurred. The tendency of the Internet to create a Wack-A-Mole game, where these often anonymous infringers are shut down and almost instantly reappear, demonstrates the need for a multi-faceted approach to prevent their continued infringement. Depending on the specific intellectual property rights implicated and the availability of federal registrations in various countries, brand owners may elect to protect and enforce their rights through a variety of ways, including cease-and-desist letters, ensuring a secure distribution line, screening vendors, redesigning packaging and registering the relevant marks with various customs departments. However, the most promising deterrence is ultimately to make counterfeiting an unprofitable enterprise, which, to date, seems only possible through collaborative efforts in implementing and enforcing anti-money laundering laws.

¹ Press Release, U.S. Chamber of Commerce, U.S. Chamber and U.S. Patent and Trademark Office Partner to Educate Businesses on Threats of Counterfeiting and Piracy (June 13, 2007), available at http://www.uschamber.com/press/releases/2007/jun_e/07-102.htm.

² 17 U.S.C. § 512.

³ available at http://www.paypal.com/cgi-bin/web-scr?cmd=_pgen/ua/use/index_frame-outside.

⁴ Council Regulation (EC) No. 1381/2003.

Camille M. Miller is Chair and Jennie A. Taylor is an Associate of the Intellectual Property Practice Group at Cozen O'Connor. Contact them at 215-665-2000.

Please email the authors at cmiller@cozen.com or jataylor@cozen.com with questions about this article.