



PROGRAM MATERIALS

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Trademark Counterfeiting in 2021

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Counterfeiting 2021

Trademark Counterfeiting in 2021

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Agenda

- Counterfeiting is an age-old problem and solutions to it (or at least potential solutions) are equally well-tested.
- However, with the rise of the internet and other factors, counterfeiting presents new and different challenges.
- These factors require new and different solutions.
- Care must be taken that these new solutions do not cause other, unintended consequences.

Counterfeit

Definitions

- **The term “counterfeit mark” 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) a spurious designation that is identical with, or substantially indistinguishable from, a designation as to which the remedies of this Act are made available by reason of section 220506 of title 36, United States Code;
 - 15 USCS § 1116
- A **“Counterfeit”** is a spurious mark which is identical with, or substantially indistinguishable from, a registered mark.
 - 15 U.S.C.S. § 1127

Secondary Liability

- **Contributory Trademark Infringement**
 - Occurs when one has knowingly contributed to another's' infringing acts.
 - Continues to supply a product to one whom it knows or has reason to know is engaging in trademark infringement.
- **Vicarious Liability**
 - Occurs when one has the ability to control the activity;
 - One derives financial benefit from the infringement;
and
 - One knows about the infringement.

Contributory Trademark Infringement

- **Contributory Trademark Infringement**
 - Culpably arises upon facilitating the infringing conduct of the counterfeiting vendors.

Vicarious Liability

- **Vicarious Liability**

- In order to impose liability, less active participation is required than for contributory infringement.
- Vicarious liability is imposed on parties who are being held legally responsible for the actions of others.

Tiffany (NJ) Inc. v. eBay, Inc.

Tiffany (NJ) Inc. v. eBay, Inc., 600 F.3d 93 (2d Cir. 2010)

- Tiffany is a world-famous retailer of luxury items, predominantly jewelry; whereas eBay is an operator of a popular electronic marketplace where third-party providers can auction or sell virtually anything.
- Tiffany items are often among the most popular that third parties desire to sell on eBay.
- Tiffany sued eBay for trademark infringement and dilution for allowing sellers to use their website to sell counterfeit “Tiffany” jewelry.
- The Court found that eBay was not contributorily liable for trademark infringement.
- Defendant may lawfully use the Plaintiffs trademark where doing so is necessary to describe the Plaintiff’s product and does not imply false affiliation or endorsement by the Plaintiff of the Defendant.

Tiffany (NJ) Inc. v. eBay, Inc.

(cont'd)

- Generally trademark rights do not prevent one who trades a branded product from accurately describing that product by its brand name, so long as the trader does not create confusion by implying an affiliation with the owner of the product.
- If a manufacturer or distributor intentionally induces another to infringe a trademark, or it if continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is *contributorily responsible* for any harm done as a result of the deceit.
 - This test applies to service providers if they exercise sufficient control over the infringing conduct.

Tiffany (NJ) Inc. v. eBay, Inc.

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- For contributory infringement to be established, the Plaintiff bears a high burden in establishing knowledge by the Defendant of the infringement by others.
- Courts have been reluctant to extend liability to Defendants where there is some uncertainty as to the extent or nature of the infringement.
- For contributory infringement to lie, the service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods.
 - Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.
 - The Defendant may not intentionally shield itself from discovering infringers.
 - Willful blindness is equivalent to actual knowledge.

Effects of the Internet

- The internet has provided counterfeiters a legitimate and broad-reaching distribution channel to reach retail consumers.
 - Consumers can now purchase without traveling to undesirable locations where counterfeits were previously often found.
- Before, consumers would generally not encounter counterfeits on the shelf next to authentic goods because high-end retailers refused to deal with distributors of counterfeit goods.
- With the unwitting help of internet platforms (Amazon, eBay, Alibaba, etc.) counterfeits now are often found in direct competition with authentic wares.
- The internet provides the ideal setting for counterfeiters to thrive in plain sight.
 - Shoppers can order goods from counterfeiters online and never know their identity.
 - Counterfeiters can accept credit card transactions from across the globe anonymously and ship goods directly to consumers.

Unauthorized Distribution

- Brand owners who sell luxury (and other) goods are forced to deal with unauthorized sales of their genuine goods.
- Typically these products are to only be available through a network of authorized dealers; however, the brand owners are unable to legitimately control downstream access due to the ***First Sale Doctrine***.
 - The ***First Sale Doctrine*** allows for resale of genuine products in an unchanged state.
- This can be challenging in a luxury goods context.
 - Brand owners want to protect pricing and provide consumers with a specialized sales force and warranties which they miss out on when they buy products from unauthorized distributors.

Anti-counterfeiting Practices

- The rise of counterfeits coincides with shifts in consumer habits.
- In June 2000, approximately 22% of US consumers purchased goods online.
 - With that number rising to 79% by December 2016.
- Worldwide e-commerce sales are estimated to be *\$4 trillion* and reach nearly 15% of all global retail spending in 2020.

Past Practices

- Pre-internet, international counterfeiters often loaded their goods in large shipping containers with false documentation to transport the goods by ocean carriage to a desired port.
 - While detection was difficult, if a brand owner had reliable intelligence of the shipment, Customs authorities could open and inspect the container and seize the counterfeits.
- Flea Market
 - Counterfeit products were also prominently found in flea markets across America and abroad.
 - This localization made finding and deterring the actions of counterfeiters a much more manageable task.

Current Practices

Section 321 de Minimis Exemption & Warehouse Fulfillment Centers

- With ocean shipping still a major means of entry for counterfeits, the growth of other methods (trucks, air, etc.) threatens to circumvent established enforcement efforts.
- **Section 321** → Under Section 321 of the Tariff Act of 1930, as amended by the Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA), articles with a value of \$800 or less, imported by one person on one day, can be admitted free of duty and taxes.
 - Under 19 CFR § 10.151 and 19 CFR part 143, Subpart C, those importations **are often not subject** to the same Customs procedures and rigorous data requirements as higher-value packages entering the US.
 - Instead, the low-value shipments can be admitted into the US with the presentation of a bill of lading or a manifest listing each bill of lading and a limited data set.
 - This limited nature of the data requirements complicates the identification of high-risk goods by CBP and other enforcement agencies.
- **Warehouse Fulfillment Centers** → Certain e-commerce platforms have adopted a business model that relies on N. American warehouses to provide space for foreign-made goods.
 - Even though this model is a significant innovation for legitimate commerce, it also creates a mechanism that allows counterfeit traffickers to minimize transportation costs, while intermingling harmful goods among legitimate goods.
 - From a risk perspective, this model allows goods to enter the US in a decentralized manner, permitting a counterfeit trafficker to spread the risk of seizure across several low-value packages.

Current Practices

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- A counterfeiter distributing fake products will typically set up one or more accounts on third-party marketplaces.
 - These are easily set-up without specialized skills.
- Third-party marketplace websites may thus include photos of the real product, fake reviews of the counterfeit product, and other disinformation designed to mislead the consumers.
- Counterfeiters can also hedge against the risk of being caught and their websites being taken down from online marketplaces by preemptively establishing multiple virtual store-fronts.

Current Practices – Social Media

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- **Social media** has also been used to increase the distribution of counterfeits across various e-commerce platforms.
- **Instagram** users can exploit the connectivity algorithm by using the names of luxury brands in hashtags.
 - Followers can search by hashtag and inadvertently find counterfeit products, often undistinguishably mixed amongst legitimate products.
 - In 2019, more than **50k** Instagram accounts were identified as promoting and/or selling counterfeit products.
 - Instagram's "Story" feature, where content disappears in 24hrs, is especially useful for counterfeiters.
- A newer development found through social media is the growth of "**hidden listings**" selling counterfeits.
 - Direct hyperlinks are sent out in private groups or chats to listings for counterfeit goods that purport to be selling legitimate items.
 - When buyers access the link, they are brought to an e-commerce platform advertising an unrelated legitimate item for the same price as the counterfeit item.
 - The buyer is directed to purchase the unrelated item in the listing but will receive the sought-after counterfeit item instead.

Counterfeiting & the Internet

- Now with hundreds of thousands small individual packages being shipped by mail to the US, it is nearly impossible to detect and stop these incoming counterfeits.
- Counterfeiting in the Age of the Internet
 - **eBay**
 - **Amazon**
 - **Alibaba**

Private Sector Best Practices

| <i>Best Practices for E-Commerce Platforms and Third-Party Marketplaces</i> | |
|---|---|
| 1. | Comprehensive "Terms of Service" Agreements |
| 2. | Significantly Enhanced Vetting of Third-Party Sellers |
| 3. | Limitations on High Risk Products |
| 4. | Efficient Notice and Takedown Procedures |
| 5. | Enhanced Post-Discovery Actions |
| 6. | Indemnity Requirements for Foreign Sellers |
| 7. | Clear Transactions Through Banks that Comply with U.S. Enforcement Requests |
| 8. | Pre-Sale Identification of Third-Party Sellers |
| 9. | Establish Marketplace Seller IDs |
| 10. | Clearly Identifiable Country of Origin Disclosures |

Department of Homeland Security, Intellectual Property Rights
Coordination –Report to POTUS (2020)

Established Liability Regimes

- In 1998 Congress passed the **Digital Millennium Copyright Act (DMCA)**.
- The DMCA grants immunity to new, emerging online platforms in exchange for reasonable enforcement efforts, including quickly removing copyrighted materials upon notice.
 - As a result, online marketplaces established “takedown” procedures in order to qualify for the DMCA safe harbors.

Amazon

- Amazon is currently the largest ecommerce marketplace in the US and second largest in the world behind Alibaba.
- Unbeknownst to most users, Amazon is set up into three tiers:
 - **Amazon Retail** → Amazon employs buyers to negotiate wholesale rates for items that are then sold by Amazon.com LLC
 - Amazon acts as a more traditional merchant
 - **Fulfilled by Amazon** → Sellers are third parties, but the goods are stored in Amazon warehouses and shipped by Amazon employees
 - Amazon charges sellers up to 50% of the retail price of the items being sold
 - **Amazon Marketplace** → Amazon acts only as the platform
 - The contemporary understanding of how a traditional ecommerce marketplaces operate
- Courts have yet to find Amazon liable for selling counterfeit goods, as they have successfully argued that they are a platform for sellers, *rather* than a seller itself.
 - See Fox v. Amazon, Inc., 930 F.3d 415, 425 (6th Cir. 2019)
 - (holding that Amazon did not exercise enough control over the counterfeit product to be deemed a seller and was not liable for plaintiff's injuries).

Amazon

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- However, Amazon has acknowledged the counterfeiting problem and initiated several programs, including:
 - **Brand Registry (BR)** (*May 2017*) → Provides enrolled brand owners tools to search for content using images, keywords, or standard identification numbers.
 - The BR program scans the Marketplace for other sellers using the same text, logo or image and notifies registered brands of potential infringement.
 - Products that are “Fulfilled” by Amazon receive BR protection prior to product fulfillment and shipment, verifying that the product is authentic.
 - Products that are not “Fulfilled” by Amazon are excluded from BR protection .
 - Currently there are no safeguards to prevent sellers that do not use “Fulfilled by Amazon” from continuing to sell counterfeit products under another account with a different name
 - **Project Zero (PZ)** (*Feb 2019*) → Empowers brand owners to automatically remove counterfeit listings without having to contact Amazon through a self-service removal tool.
 - PZ also uses machine learning to automatically scan for potential counterfeits and remove them proactively without brand owner intervention as well as product serialization, assigning a unique code to each product manufactured by a brand and asks the brands to stamp the code on its products during product manufacturing.
 - To participate, the brand must have a government-registered trademark and must also be enrolled in the Brand Registry program.

Amazon

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- On average Amazon's automations stop 100 times more suspected counterfeit products compared to previous practices.
- However, because of how fast counterfeiters can create a new account, and produce and advertise their counterfeits online, these efforts are still seen as inadequate to protect brands from infringement.
- Until now Amazon has limited its anti-infringement efforts solely to trademarks but had done little to protect patents from infringement.
- **Utility Patent Neutral Evaluation Program (UPNEP) →**
 - Facilitates dispute resolution using a neutral evaluator selected by Amazon.
 - Under this program registered utility patent owners who believe infringing products are listed on Amazon can submit a takedown notification against the accused seller and infringing product with a signed agreement to participate in the UPNEP
 - **Weaknesses:**
 - *Limited to claims of infringement of utility patents rather than design patents* (Which generally attract more bad-faith claims as they are cheaper and easier to obtain).
 - *Potential for Abuse* (Bad acts bringing claims of infringement will not fear patent invalidations, regardless of how weak or overbroad their patents are).
 - *An Unenforceable Holding* (Can not prevent bad actors from creating new profiles – same issue as BR & PZ).
 - *Inherent Conflict of Interest* (Evaluators are employed by Amazon and possibly beholden towards company interests).

Alibaba

- In 2015, package delivery from Alibaba's e-commerce platform in China averaged thirty million per day.
- Even from its early days, in 1999, the company has been overwhelmed with claims of counterfeits being found.
- Alibaba has been placed on the *Notorious Markets* list in 2011, 2014, 2016, 2017, and 2018.
- Many brand owners argue that Alibaba, despite its arguments to the contrary, tolerates and supports counterfeiting on its websites because the company earns revenues from all sales, including those of counterfeit goods.
- Much of the skepticism at Alibaba's fight against counterfeiting can be attributed to statements by its Chairman and Founder, Jack Ma, that defend counterfeiting.
 - *"How can you sell Gucci or whatever branded bag for so much money? It is ridiculous."*
 - *"The problem is the fake products today are of better quality and better price than the real names. They are exactly the [same] factories, exactly the same raw materials but they do not use the same names."*

Exploitation of Anti-counterfeiting Measures?

- Some say that large powerful companies such as Tiffany's are exploiting the anti-counterfeiting measures to strengthen their brands and income revenues.
 - This can have negative effects on the applicability and usefulness of current and future legislation in the defense of small and medium companies which often depend on these e-commerce platforms.

Counterfeiting in the Age of COVID-19

- Counterfeiters are taking advantage of the COVID-19 outbreak, duping consumers into buying fake essential items such as face masks, medicines, and medical equipment.
- There is a concern that as borders begin to reopen, an influx of counterfeit goods will begin making its way to unsuspecting consumers looking for essential items such as foodstuffs and medical equipment.

Counterfeiting in the Age of COVID-19

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- For goods subject to federal health and safety regulations, it costs much less to produce counterfeit versions that do not meet these health and safety requirements that make the legitimate product safe.
- Counterfeiters reduce the need for incurring significant R&D expenditures by stealing intellectual property, technologies, and trade secrets.
 - They also trim production costs by using inferior ingredients or components.
- For example, a common method for counterfeiters to produce fake prescription opioids like Oxycontin, or a prescription drug like Viagra, is to start with the real pills as a basic ingredient.
 - These real pills are then ground up into a powder, diluted with some type of (sometimes toxic) powder filler, and then “spiked” with an illegal and deadly narcotic like fentanyl, in the case of fake opioids, or illegal and deadly amphetamines or strychnine, in the case of Viagra.

2020 Anticounterfeiting Developments

- 2020 brought not only a rise in the level of counterfeiting on the Internet, but also the beginning of a re-evaluation by governments of e-commerce laws in some of the globe's largest economies.
 - These include China, India, the European Union, and the US.

Consumer Protection/Anticounterfeiting Bills

- **CGSA** (S. 2987, the Counterfeit Goods Seizure Act)
- **SHOP SAFE Act** (H.R. 6058, Stopping Harmful Offers on Platforms by Screening Against Fakes in E-commerce)
- **INFORM Consumers Act** (S. 3431, the Integrity, Notification, and Fairness in Online Retail Marketplaces for Consumers Act)
- **SANTA Act** (S. 3073, the Stopping All Nefarious Toys in America Act)

CGSA Act of 2019

Introduced to the U.S. Senate in December 2019

- This bill would amend statutory language within 19 U.S.C. § 1595a, which governs Customs and Border Protection (CBP) enforcement mechanisms against unlawful importation.
- The CBP would be given discretionary authority to seize imported goods which infringe upon a US design patent registered with the agency.
- Supporters of the bill have argued that the more robust enforcement mechanism available through the CGSA would better address certain practices used by counterfeiters to evade CBP seizures, such as obscuring infringing trademarks in shipments.
- Under the CGSA, such counterfeits could still be seized for infringing U.S. design patents.

SHOP SAFE Act of 2020

Referred to the House Judiciary Committee on March 2, 2020

- This Act proposes to amend the Lanham Act to provide for contributory liability of certain e-commerce platforms for use of a counterfeit mark by third-party sellers offering counterfeit goods that represent health and safety risks.
- E-commerce platforms would be exempted from liability **only** if the third-party seller is available for service of process in the US and the platform demonstrated reasonable steps to prevent counterfeiting.
 - This bill has been inactive since being referred to the House Judiciary Committee.

INFORM Consumers Act of 2020

Introduced the Senate Committee on Commerce, Science, and Transportation in March 2020

- The **Integrity, Notification, and Fairness in Online Retail Marketplaces for Consumers Act** requires online marketplaces to disclose verified information about high-volume third-party sellers of consumer products to consumers.
- This includes the sellers name, business address and nature of business (manufacturer, importer, reseller, etc.)
 - This bill has been inactive since being referred to the Senate Committee on Commerce, Science, and Transportation.

SANTA Act of 2019

*Referred to the Senate Committee on Commerce, Science, and Transportation
in December 2019*

- This bill would require online marketplaces verify seller information regarding sellers of children's products.
- The information disclosures would be very similar to those mandated by the **INFORM Consumers Act of 2020**.
 - This bill has been inactive since being referred to the Senate Commerce, Science, and Transportation Committee.

International Anticounterfeiting Measures

- **(CHINA):** On September 13, 2020, the Supreme People's Court of China released a set of documents involving intellectual property disputes on e-commerce platforms, as the guiding opinions for China's E-Commerce Law, which was enacted in 2018.
- **(EU):** The European Commission is looking to protect online shoppers in its possible amendment of the 2000 E-Commerce Law through the Digital Services Act (DSA).
- **(Spain):** The Spanish Antipiracy Commission uses an administrative process to safeguard copyrights in a digital environment.

The Unintended Effects of the GDPR on IP Enforcement

- The EU General Data Protection Regulation (GDPR) can affect a platform's ability to share data with rights holders as well as the redaction of data.
 - This may include the owner's name and contact information, within the domain name registration data system known as WHOIS.
- If trademark owners are unable to determine a counterfeiter's identity, they are unable to enforce their rights and protect their consumers from the harms of substandard counterfeits.

Remedies Against Counterfeiting

- Steps for Trademark Owners
 - **Payment Processors**→ Most major credit card companies have anti-piracy policies and mechanisms for reporting fraud.
 - **Global Trademark Protection**→ Obtain trademark registration where counterfeit goods are typically manufactured.
 - Most countries are “first to file” jurisdictions where trademark rights are dependent upon obtaining registration.
 - **NNN Agreement** – in addition to a trademark registration, once the brand owner has found a trustworthy manufacturer, it may be helpful to have them sign a country-specific *nondisclosure, non-use, non-circumvision (NNN)* agreement.
 - This may provide the courts with a basis for a pre-judgement seizure.
 - **Copyright Protection**→ Can operate as a work-around
 - Under Section 512 of the DMCA, online services providers and Internet intermediaries are exempted from liability for copyright infringement under safe harbor provisions when they expeditiously remove or disable access to the allegedly infringing material upon notification of the claim.
 - Other signatory countries have enacted similar provisions, as a result, sending takedown notices to registrars and webhosts, located in or out of the US, is often an effective means of policing.
 - **Requesting Government Assistance**→ The Intellectual Property Rights Coordination Center (IPR) is a joint enforcement collaboration led by DHS, which brings government agencies together to share information, leverage resources, and train investigators, prosecutors, and the public on IP rights.

Questions?

- For more information, please contact:

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