October 8, 2019
Killing the Snake
How Counterfeiters Can Be Found and Eliminated
Rosemary Coates and Imran Vakil
U.S. Customs and Border Protection seized and destroyed 34,143 shipments containing counterfeit goods in the 2017 fiscal year, the most recent year with available data. 

*Legal Blacksmith* is for anyone who has ever had a problematic supply chain relationship, and those who want to manage their supply chain relationships so that they do not become problematic. It is written to help executive management, supply chain and procurement executives, in-house legal professionals, and other attorneys deal with difficult supply chain issues.

Nike is the most faked brand.
October 1, 2019
Officials seize thousands of counterfeit refrigerator water filters at the port of Los Angeles-Long Beach from China.
May 3, 2019
U.S. Customs and Border Protection seized $7.8 million fake watches at Cincinnati's Express Consignment Operations.

Can you tell the difference between these two Breitling Navitimer 01 Blue Dial watches? One will cost you close to $6,000 while the other may only cost you a few hundred bucks.
Sept 18, 2019
Nearly 600 counterfeit e-cigarette pods coming from China Seized At Philadelphia Port
May 30, 2019
DoD bought phony military gear made in China, including counter-night vision clothing that didn’t actually work
Sept 8, 2019
Fake NBA rings intercepted at L.A. airport cargo facility
July 22, 2019
Amazon warns customers that Align supplements sold on its site are probably fake
Aug 15, 2019
U.S. Customs Seizes $3.4M USD in Fake Gucci, Nike, Louis Vuitton & More at LAX
Man admits importing counterfeit electronics to customers in San Diego
September 11, 2019
Hong Kong Customs seizes 12,000 pairs of counterfeit sport shoes destined for the Dominican Republic
May 31, 2019
CBP seizes $101K in counterfeit phone cases at Dulles
Killing the Snake

How Counterfeiters Can Be Found and Eliminated

Rosemary Coates and Imran Vakil, Esq.
Counterfeit goods are a growing problem

<table>
<thead>
<tr>
<th>Period</th>
<th>$Amount</th>
<th>% of Global Trade</th>
<th>Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$200 billion</td>
<td>1.9%</td>
<td>*OECD 2008</td>
</tr>
<tr>
<td>2007</td>
<td>$250 billion</td>
<td>1.97%</td>
<td>OECD 2008</td>
</tr>
<tr>
<td>2013</td>
<td>$461 billion</td>
<td>2.5%</td>
<td>OECR 2016</td>
</tr>
<tr>
<td>2017</td>
<td>$1.2 trillion</td>
<td>Not calculated</td>
<td>GBCR 2018</td>
</tr>
<tr>
<td>2020</td>
<td>$1.8 trillion</td>
<td>Not calculated</td>
<td>GBCR 2018</td>
</tr>
<tr>
<td>2022</td>
<td>$2.3 trillion</td>
<td>Not calculated</td>
<td>Frontier/INTA 2016</td>
</tr>
</tbody>
</table>

* European Organisation for Economic Cooperation and Development

In the USA and EU there is as about a 1 in 20 chance of a consumer purchasing counterfeit goods.

“No industry, market, product category or geography is immune.”

National Association of Manufacturers
“When GAO investigators purchased brand-name goods—from shoes and travel mugs to cosmetics and phone chargers—from third-party sellers on popular consumer websites such as Amazon and eBay, more than 40% of the goods turned out to be counterfeit.”

WSJ 04 APR 2019
POP QUIZ: What products are most frequently counterfeited?

- Aircraft parts
- Auto parts
- Clothing
- Cosmetics
- Electronics
- Footwear
- Food and Drink
- Jewelry
- Leather products
- Medical equipment
- Perfume
- Pharmaceuticals
- Technology
- Watches
- Toys

Counterfeit products pose a direct threat to consumer health and safety. Commonly counterfeited goods are those used directly by consumers, ranging from personal care products to consumer electronics.
### Top 15 industries with respect to their propensities to suffer from counterfeiting, GTRIC-p*, average 2011-2013

<table>
<thead>
<tr>
<th>Harmonized System (category number)</th>
<th>Georgia Tech GTRIC-p*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watches (91)</td>
<td>0.9997</td>
</tr>
<tr>
<td>Articles of leather (42)</td>
<td>0.9990</td>
</tr>
<tr>
<td>Headgear (65)</td>
<td>0.9706</td>
</tr>
<tr>
<td>Footwear (64)</td>
<td>0.9633</td>
</tr>
<tr>
<td>Perfumery and cosmetics (33)</td>
<td>0.9145</td>
</tr>
<tr>
<td>Toys (95)</td>
<td>0.8986</td>
</tr>
<tr>
<td>Clothing apparel, knitted or crocheted (61)</td>
<td>0.8609</td>
</tr>
<tr>
<td>Miscellaneous manufactured article (96)</td>
<td>0.8606</td>
</tr>
<tr>
<td>Tobacco (24)</td>
<td>0.8234</td>
</tr>
<tr>
<td>Other textile articles, labels (63)</td>
<td>0.6695</td>
</tr>
<tr>
<td>Umbrellas, walking sticks (66)</td>
<td>0.5902</td>
</tr>
<tr>
<td>Packaging (49)</td>
<td>0.5391</td>
</tr>
<tr>
<td>Clothing apparel, non-knitted or crocheted (62)</td>
<td>0.5032</td>
</tr>
<tr>
<td>Fabrics, labels (58)</td>
<td>0.4978</td>
</tr>
<tr>
<td>Tools of base metal (82)</td>
<td>0.4598</td>
</tr>
</tbody>
</table>

* General Trade-Related Index of Counterfeiting

Source: Organization for Economic Cooperation and Development (OECD) 2016

Statlink: [http://dx.doi.org/10.1787/888933346080](http://dx.doi.org/10.1787/888933346080)
Where do counterfeits come from?

- China is the top offender, responsible for more illicit trade all other countries, combined.
- India, Thailand, Turkey, Malaysia, Pakistan, and Vietnam are major producers of counterfeited goods.
Who is losing? (2014-2016)
Counterfeiting is a critical risk for all innovative companies no matter where they are located.

Seizures of counterfeit and pirated goods
Top economies of origin of right holders whose IP rights are infringed, 2014 – 16
How do companies discover counterfeits?

- Database of Downstream Partners & Product Sales
- Private Investigations
- Policies / Agreements
- Partner Recon
- Brand Monitoring
- Returns/Service

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A litany of laws and regulations (Civil)

- **Patent**
  - ITC 337 Infringement

- **Copyright**
  - N/A Infringement

- **Trademark**
  - CBP Infringement & Counterfeiting

It is estimated that the U.S. Customs and Border Protection only captures 1% of all fakes imported (e.g., 34,143 seizures valued at approximately $1.2 billion dollars in 2017)
The Lanham Act, 15 U.S.C. §§ 1051 et seq.,

Counterfeiting is *strict liability*

In *tort law, strict liability* is the imposition of liability on a party without a finding of intent. The claimant need only prove that the tort occurred and that the defendant was responsible.
Treble (3x) actual damages
[15 U.S.C. 1117(b)]

OR

$1,000 to $2,000,000 in statutory damages
[15 U.S.C. 1117(c)]
What triggers counterfeiting liability?

<table>
<thead>
<tr>
<th>True counterfeiting</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subversive “generic” imports</td>
<td>Possibly</td>
</tr>
<tr>
<td>Gray market goods a/k/a parallel imports</td>
<td>Situation Dependent</td>
</tr>
</tbody>
</table>
Why or Why not grey market goods?

Why grey market goods should not be allowed:

- Safety concerns. Lack government-regulated labels (e.g. child-safety warnings) and English-language instruction manuals
- Replacement parts are not available in the United States
- Lack warranties and after-sale services

Why grey market goods should be allowed:

- Manufacturers do not retain control after they sell them
- Goods started off genuine - crossing borders doesn’t change that
- Americans shouldn’t have to pay more
The unofficial grey market rule:

You can basically *resell* anything as long as it is truthfully advertised*

(*exceptions apply)
Case Examples
Counterfeit Sunglasses

• On-line sale of branded products not through authorized dealer sales channel

• Patented lenses were not in the frames – counterfeiter added their own

• Defendant claimed they purchased overstock from authorized dealers at reduced rates, and resold over the internet below U.S. market price

• Counterfeits were mixed with legitimate goods

• U.S. customs allows de minimis entry - up to $800

• FDA regulates ALL sunglasses entering the U.S., so FDA certificates required
European luxury brand counterfeit auto parts for sale on eBay

Warehouse operator claimed they knew nothing about counterfeits; just “fulfilling orders”

Warehouse was warned about past counterfeits

Under strict liability laws, warehouse operator was defined participant in counterfeit supply chain

Under Lanham Act, defendant facilitated commerce
Gray Market Computer Accessories

- European luxury brand counterfeit auto parts for sale on eBay
- Warehouse operator claimed they knew nothing about counterfeits; just “fulfilling orders”
- Warehouse was warned about past counterfeits
- Under strict liability laws, warehouse operator was defined participant in counterfeit supply chain
- Under Lanham Act, defendant facilitated commerce
• Counterfeit high-powered flashlights discovered in e-Commerce fulfillment warehouse

• Advertised on Facebook and outside of Brand’s normal distribution channel

• Warehouse operator claimed to know nothing about counterfeits and were just “fulfilling orders”

• Warehouse operator warned about past counterfeit products and developed a process for detection, but did not follow it

• Under strict liability laws, Warehouse operator was a defined participant in the counterfeit supply chain
UNIFYING PRINCIPLE #1 –
Brand management is never ending

Anti-piracy is like squeezing a balloon
UNIFYING PRINCIPLE #2 – Counterfeiter are like leaks...

Counterfeits start as a drip, and left unmitigated, end as a flood
UNIFYING PRINCIPLE #3 – Snakes tend to live in colonies

The Jewelry district
Santee Street (clothing)
3rd Street (tobacco)
UNIFYING PRINCIPLE #4 – Counterfeiters are dirty players

- Shell entities (manufacturer + trading company + importer + wholesaler, etc.)
- Hidden warehouses
- Obfuscated records – import, purchase, sale
- Cash transactions
- Front men
- Rudimentary but effective asset protection
- Corporate closure / bankruptcy
- Name changes / use of relatives
UNIFYING PRINCIPLE #5 – Heads or Tails?

• The logical way to kill a snake is to cut off the head
• But what to do when there is a colony?
• The sustainable way is to starve them.
ROLE FOR EXPERTS

Liability and Willfulness

Unjust Enrichment Damages

Reputational Harm / Likelihood of Confusion Surveys
Killing the snake – Global Supply Chains