

IEEE-CNSV

Consultants' Network of Silicon Valley

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

A photograph showing a collection of approximately 25 fake NBA championship rings arranged in a jewelry tray. The rings are made of various materials, including gold, silver, and black metal, and feature different designs, some with team logos and others with text like 'CHAMPION'. A semi-transparent text box is overlaid on the center of the image.

Sept 8, 2019
Fake NBA rings intercepted at L.A. airport cargo facility

A close-up photograph of a person's hand holding an open amber-colored pill bottle. The bottle is tilted, and several yellow, oval-shaped capsules are visible inside. The background is a plain, light-colored surface.

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

Sept 5, 2019

Man admits importing counterfeit electronics to customers in San Diego



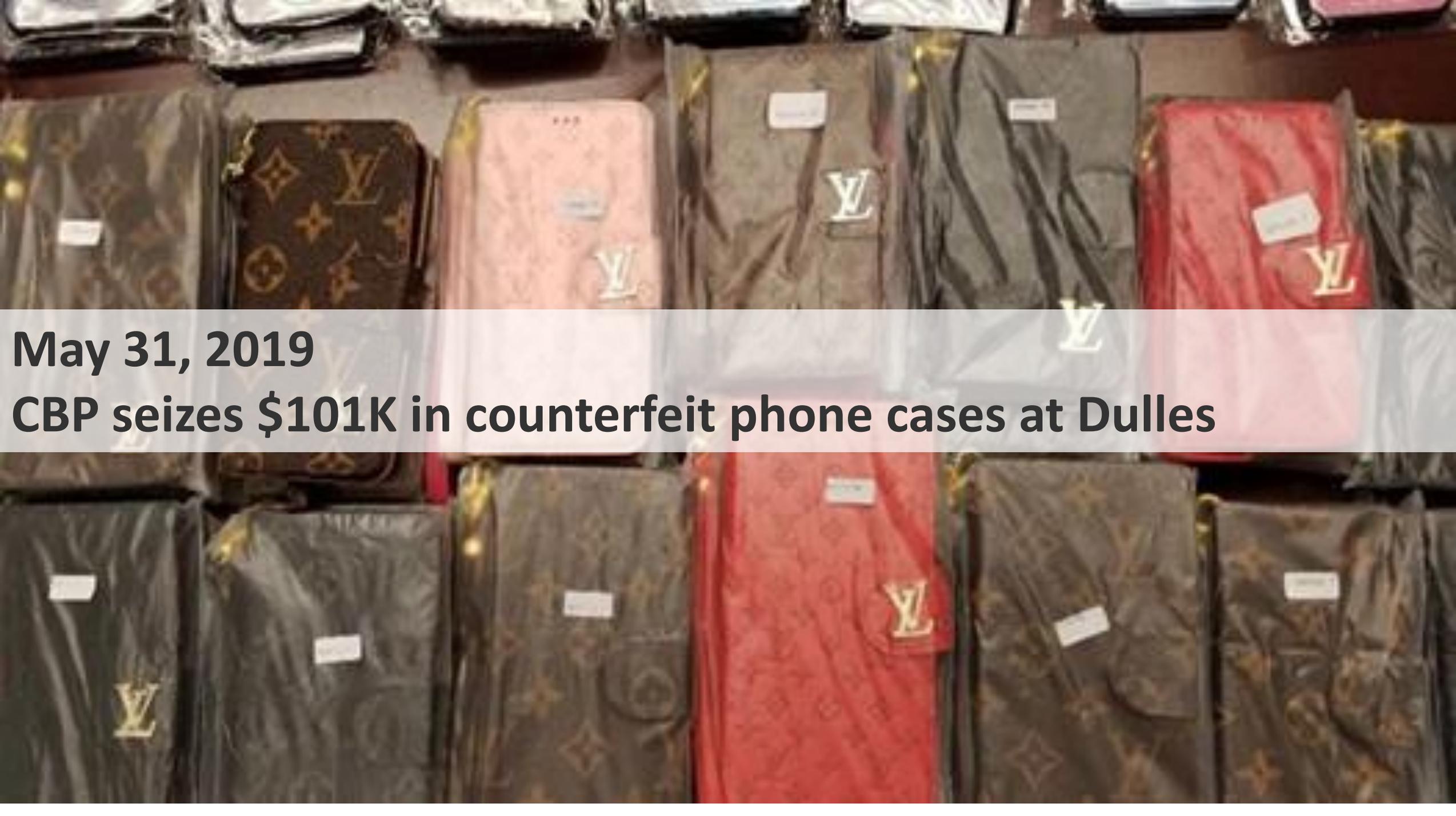


香港海關
海港及內河貿易組
CUSTOMS AND EXCISE DEPARTMENT
HARBOUR AND RIVER TRADE DIVISION

September 11, 2019

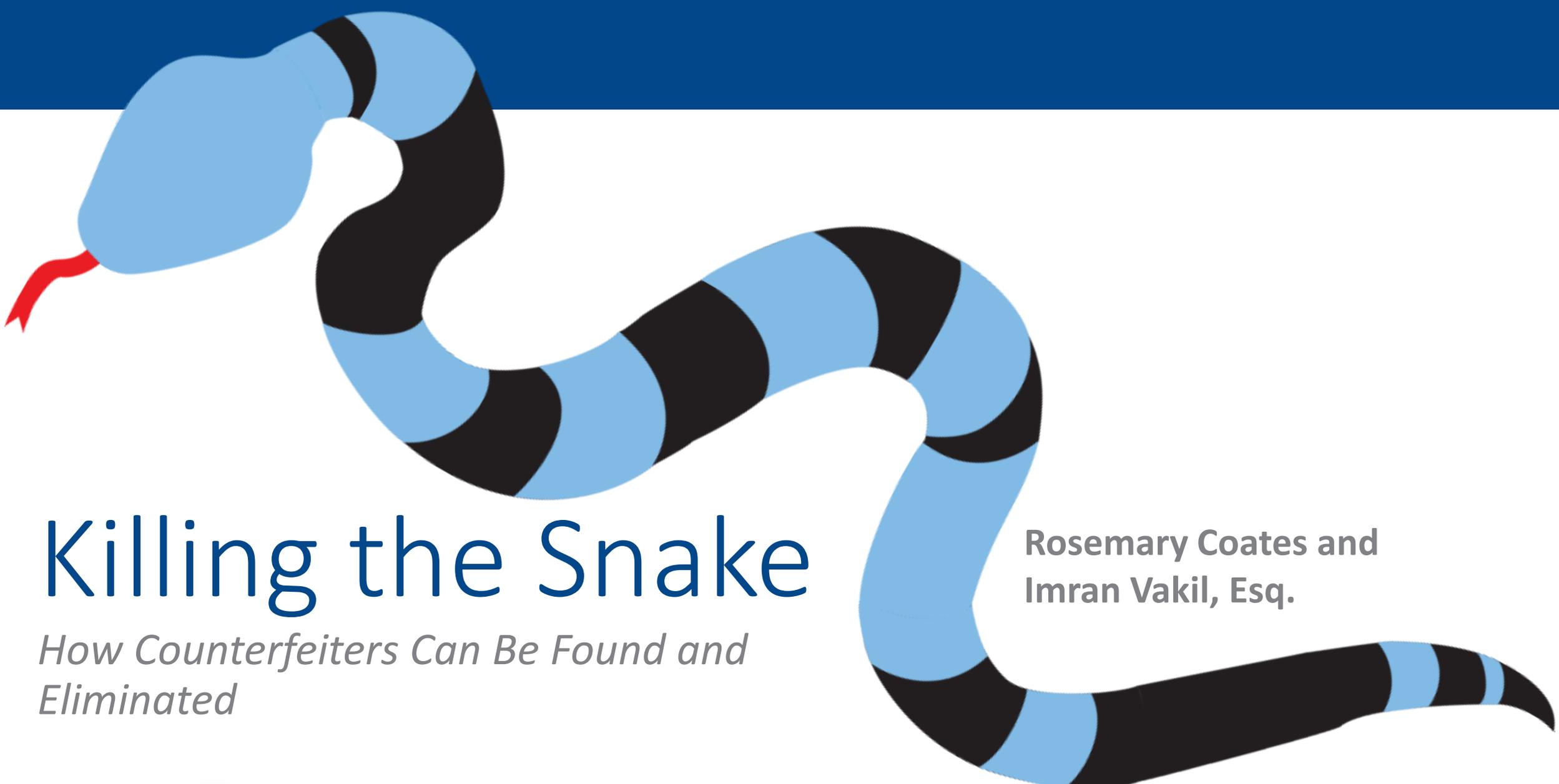
Hong Kong Customs seizes 12,000 pairs of counterfeit sport shoes destined for the Dominican Republic





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

Period	\$Amount	% of Global Trade	Report
2000	\$200 billion	1.9%	*OECD 2008
2007	\$250 billion	1.97%	OECD 2008
2013	\$461 billion	2.5%	OECD 2016
2017	\$1.2 trillion	Not calculated	GBCR 2018
2020	\$1.8 trillion	Not calculated	GBCR 2018
2022	\$2.3 trillion	Not calculated	Frontier/INTA 2016

* 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

THE WALL STREET JOURNAL.

“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

Statlink:<http://dx.doi.org/10.1787/888933346080>

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

* General Trade-Related Index of Counterfeiting

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

Where do counterfeits come from?



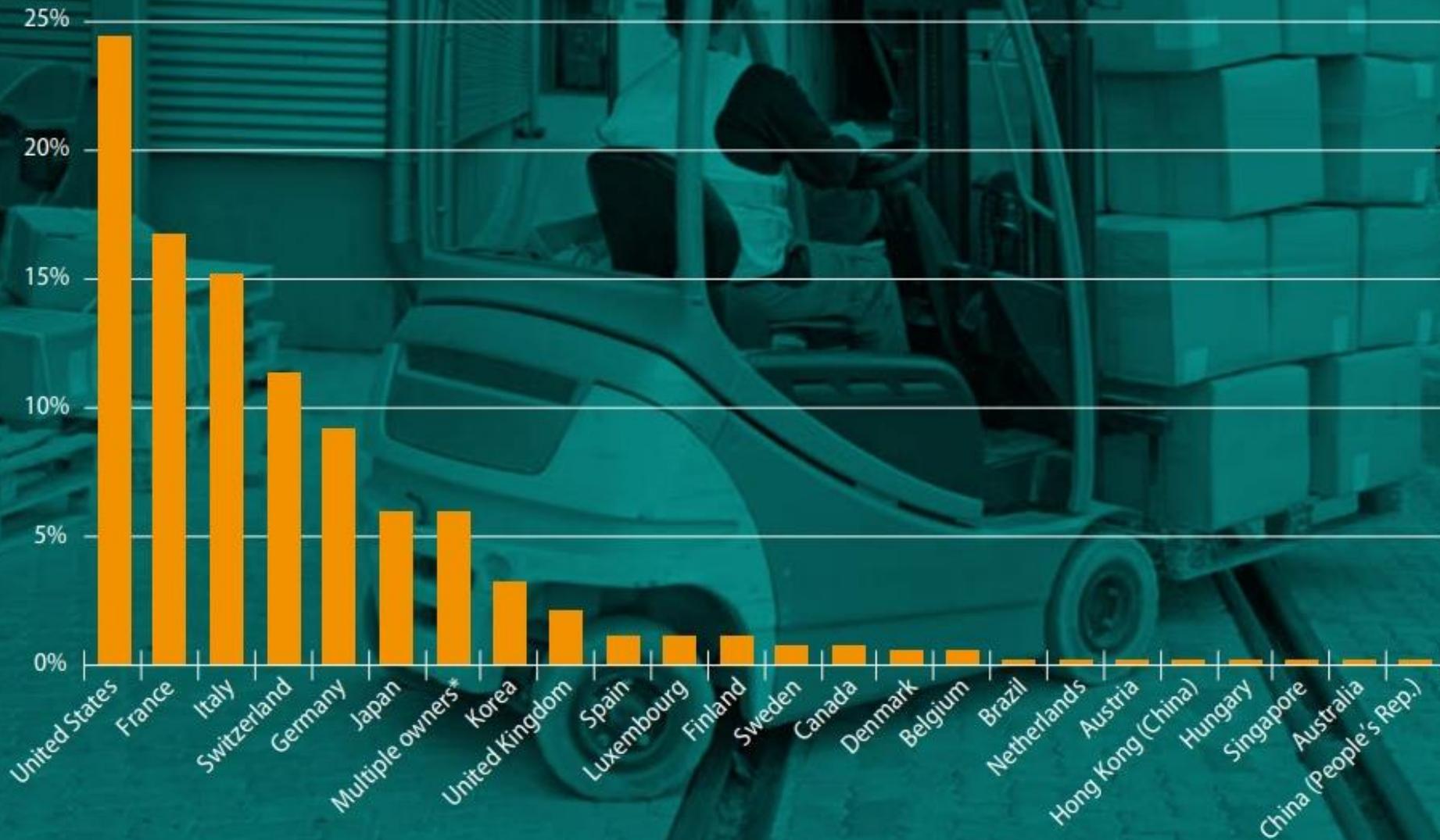
- China is the top offender, responsible for more illicit trade all other countries, combined.
- India, Thailand, Turkey, Malaysia, Pakistan, and Vietnam are major producers of counterfeited goods.

Who is losing? (2014-2016)

Counterfeiting is a critical risk for all innovative companies no matter where they are located.

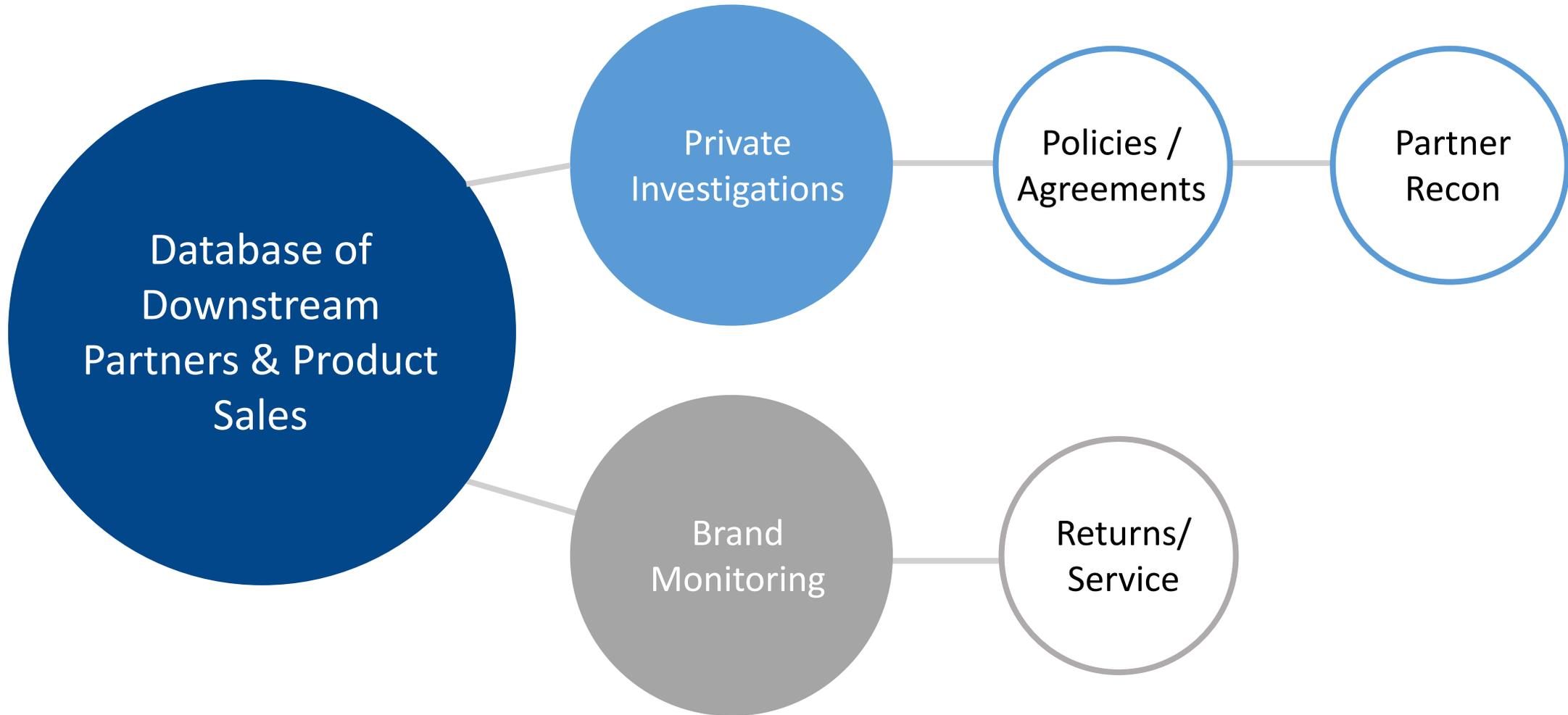
Seizures of counterfeit and pirated goods

Top economies of origin of right holders whose IP rights are infringed, 2014 – 16

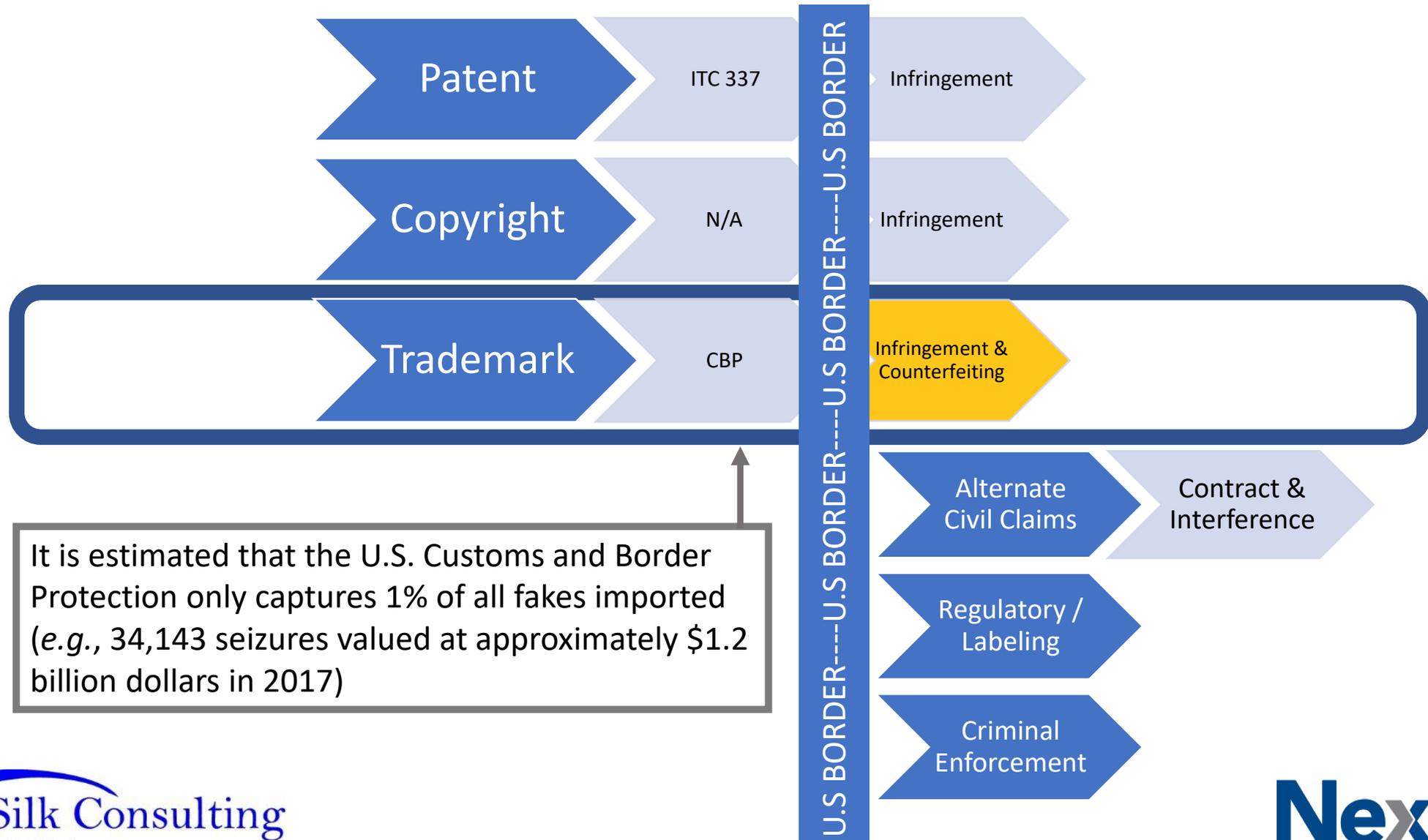


Source: OCDE/EUIP

How do companies discover counterfeits?



A litany of laws and regulations (Civil)



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)

Landham Act – Trademarks



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.

Counterfeiting Damages

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?

True counterfeiting

Yes

Subversive “generic” imports

Possibly

Gray market goods a/k/a
parallel imports

Situation
Dependent

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:

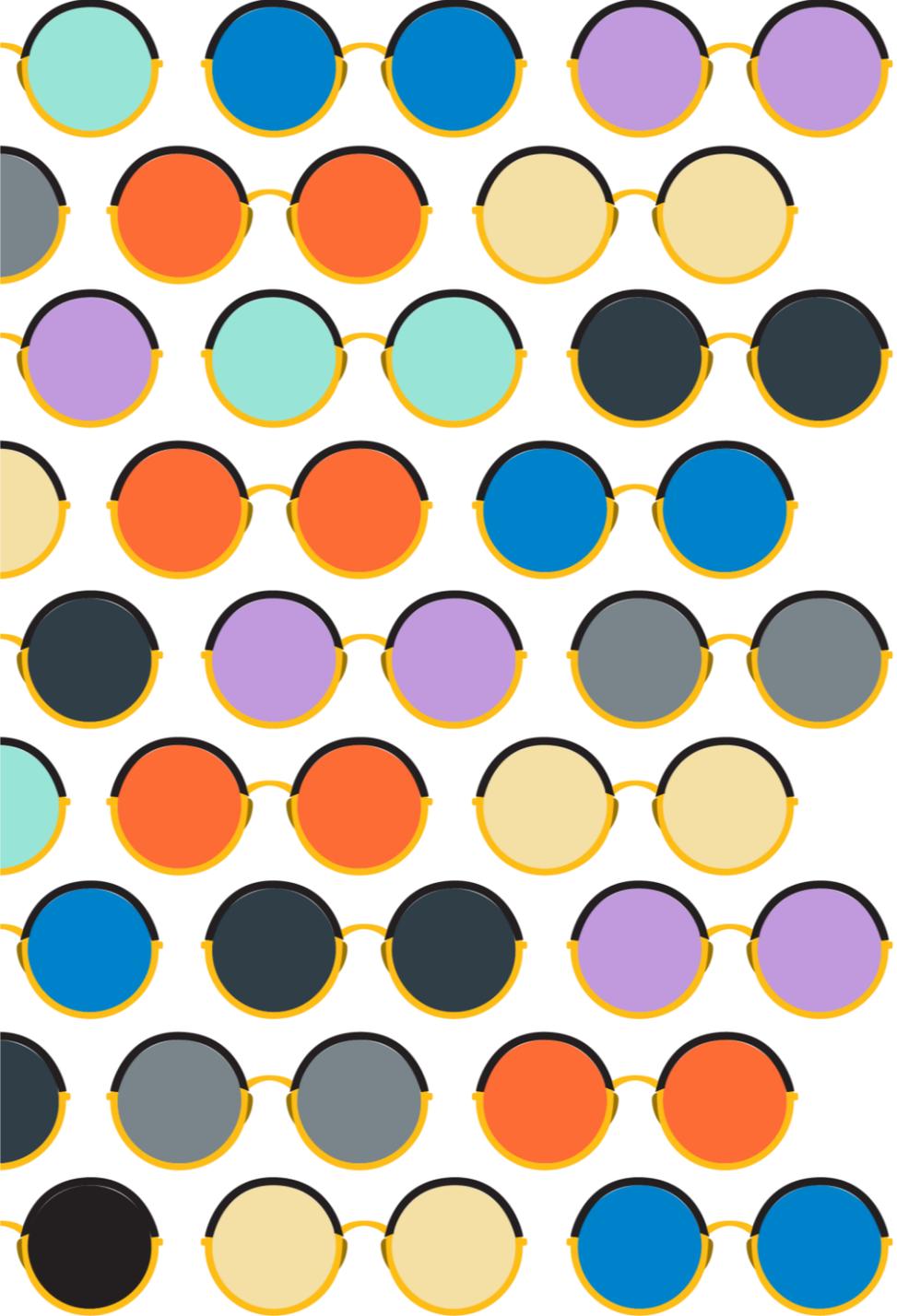
- Manufacturers do not retain control after they sell them
- Goods started off genuine - crossing borders doesn't change that
- Americans shouldn't have to pay more

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



INFINITI®

PORSCHE



LEXUS



Mercedes-Benz

Counterfeit Auto Parts

- 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



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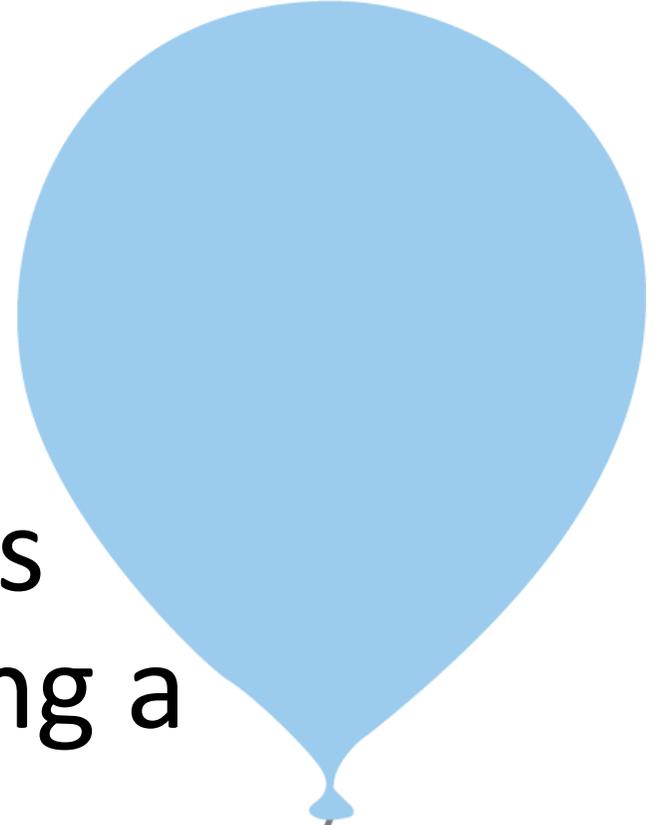
- Counterfeit high-powered flashlights discovered in e-Commerce fulfillment warehouse
- Advertised on Facebook and outside of Brand's normal distribution channel
- Warehouse operator claimed to know nothing about counterfeits and were just "fulfilling orders"
- Warehouse operator warned about past counterfeit 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



Counterfeit Flashlights

UNIFYING PRINCIPLE #1 –
Brand management is never
ending

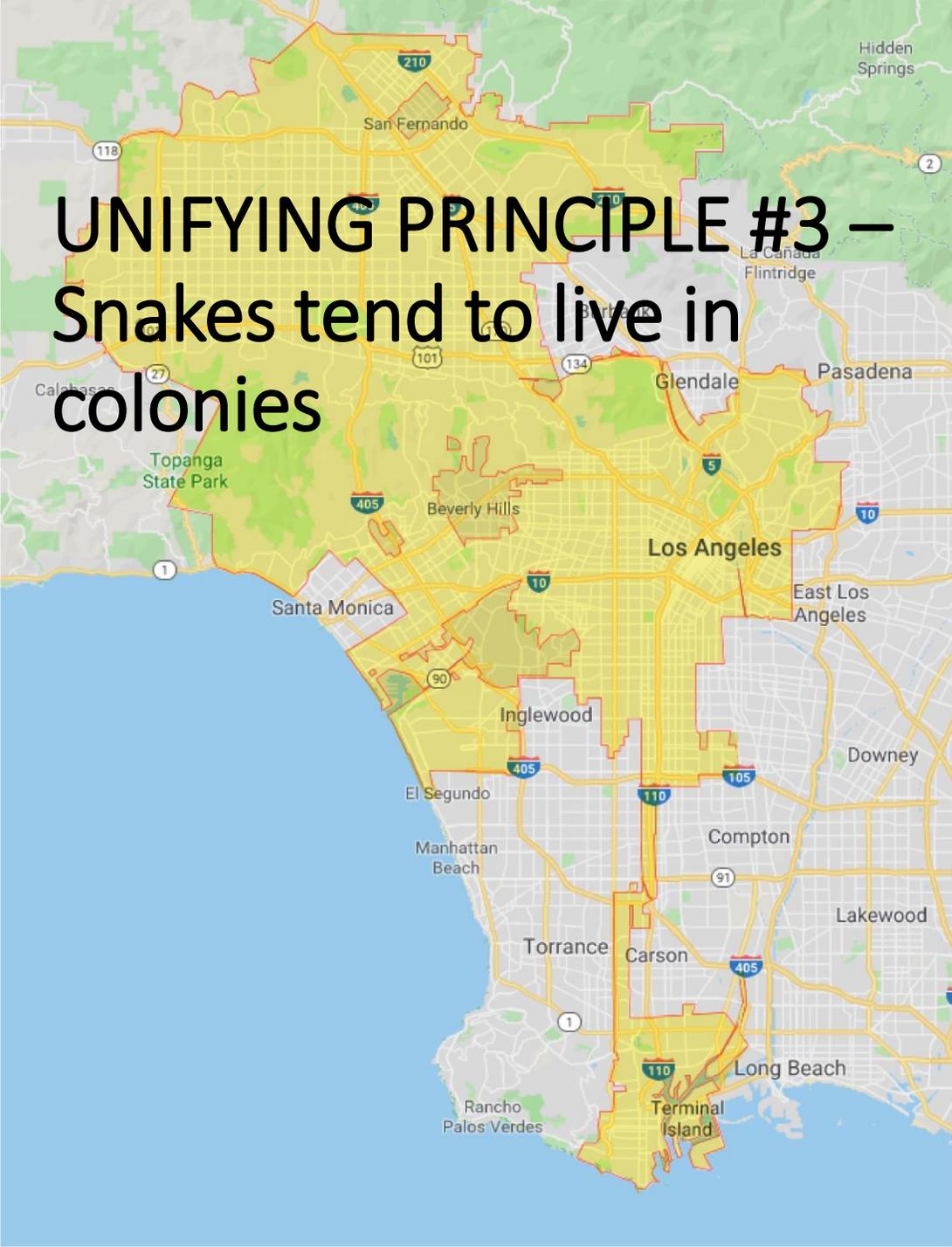
Anti-piracy is
like squeezing a
balloon





UNIFYING PRINCIPLE #2 –
Counterfeiters are like
leaks...

Counterfeits start as a drip, and
left unmitigated, end as a flood

A map of the Los Angeles metropolitan area with a yellow highlighted region. The highlighted region includes San Fernando, Burbank, Glendale, Pasadena, Los Angeles, Beverly Hills, Santa Monica, Inglewood, El Segundo, Manhattan Beach, Torrance, Carson, Long Beach, and Terminal Island. Major highways like 210, 101, 134, 405, 10, 5, 110, 105, 91, and 405 are visible. The text 'UNIFYING PRINCIPLE #3 – Snakes tend to live in colonies' is overlaid on the map.

**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



Evidence

Confirming

Retailers

Trading Companies

Wholesalers

Manufacturers

Killing the snake – Global Supply Chains

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