Online Counterfeiting: Combating the Exploding Worldwide Threat
Policing and Protecting Brands to Enforce IP Rights Against Counterfeiters and Secondary Infringers

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Today’s faculty features:

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Online Counterfeiting: Combating the Worldwide Threat

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Agenda

• Scope and nature of the problem
• Laws and remedies
• Assessing your company’s risk
• Building and operating an enforcement program
• Examples of enforcement actions
• Enlisting help from law enforcement
• Recent developments
Online Counterfeiting and Piracy

SCOPE AND NATURE OF THE PROBLEM
Counterfeit Trademark

- A spurious (i.e., not genuine) mark identical with or substantially indistinguishable from a registered mark
Trademark Counterfeit Goods

• Any goods or packaging bearing without authorization a trademark identical to or which cannot be distinguished from a validly registered trademark
  – TRIPS Agreement Article 51 n. 14(a)
Copyright Pirated Goods

• Copies made without consent of the right holder in the country of production that infringe copyright or related rights in the country of importation.
  – TRIPS Agreement Article 51 n.14(b)
Market Value of Seized Counterfeits

2012 IPR Seizures by US and EU Customs

- Handbags/Wallets
- Watches/Jewelry
- Clothing/Accessories
- Footwear
- Perfumes/Persona
- Computers/Accessories
- Mobile
- Optical Media
- Tobacco/Toys/Other

MSRP in US$ Millions
Other Counterfeited Items

- Counterfeit cell phones
- Air purifiers (false UL certification)
- Fire hose nozzles (false UL certification)
- Automobiles and components
- Diagnostic equipment
- Manufacturer retail coupons
Challenges to Enforcement

• Concealed identities of infringers
• Concealed locations of infringers
• Global reach from countries with poor laws and enforcement
• Resilience of infringers to disruption
• Dependence on intermediaries for enforcement
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LEGAL PROHIBITIONS AND REMEDIES
Civil Prohibitions and Remedies

• Trademark Act of 1946 as amended, 15 U.S.C. §1114 - §1118 and §1125(a)(1) and (b)
• Copyright Act of 1976 as amended, 17 U.S.C. §501- §504
• Copyright Protection and Management Systems, 17 U.S.C. §§1201- 1205
• State anti-counterfeiting, record bootlegging, true name and address statutes, and criminal simulation laws
Key Anticounterfeiting and Antipiracy Remedies

• Seizure of counterfeit marks and goods and copyright infringements
  – Copyright Act, 17 U.S.C. §503(a)
  – Fed. R. Civ. P. 65

• Destruction of counterfeit and infringing articles
  – Copyright Act, 17 U.S.C. §503(b)

• Enhanced damages and statutory damages for use of counterfeit marks and for willful copyright infringement
  – Trademark Act, 15 U.S.C. §1117(b) and (c)
  – Copyright Act, 17 U.S.C. §504(c)(2)
Border Control Remedies

• Trademark Act of 1946 as amended, 15 U.S.C. §1124 and §1125(b)
• Copyright Act of 1976 as amended, 17 U.S.C. §602 - §603
• Tariff Act of 1930 as amended, 19 U.S.C. §1526(a)
Criminal Prohibitions and Penalties

• Trafficking in Counterfeit Goods or Services, 18 U.S.C. §2320
• Trafficking in Counterfeit Labels, 18 U.S.C. §2318 - §2319B and §2323
• Copyright Act of 1976 as amended, 17 U.S.C. §505
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ASSESSING YOUR BUSINESS RISK
Risk Factors Checklist

• Digital or physical format
• High ratio of retail price to cost of goods
• Quality difficult for consumer to ascertain
• Manufacturing in China
• Shipping through Hong Kong and UAE
• Distribution channels
• Contractual or other legal obligation to enforce
Assessing Your Risk

• Interview supply chain managers, sales representatives, distributors, and licensees
• Review supplier manufacturing records
• Inspect conventional and discount retail channels
• Monitor trade publication advertising
• Monitor online marketplaces, cyber lockers, and peer-to-peer services
• Make and inspect test purchases
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BUILDING AND OPERATING AN ENFORCEMENT PROGRAM
Developing an Enforcement Strategy

- Review findings of risk assessment
- Identify key intellectual property for enforcement
- Identify priority problems for enforcement
- Set clear objectives and measurements
- Secure funding and personnel appropriate for program
Enforcement Program Objectives

• Reduce lost sales
• Safeguard product reputation
• Protect consumers
• Satisfy contractual obligations to licensees and distributors
• Manage legal risk arising from counterfeits
Enforcement Program Requirements

• Support from senior management
• Clear strategy and objectives
• Ongoing budget appropriate for strategy
• Authority to operate program
• Cooperation from manufacturing, marketing, and data protection teams
• Experienced enforcement team
Staffing Your IP Enforcement Team

• Assemble staff and/or vendors involved with IP with range of functions and profiles
• Business functions
  – R&D, manufacturing, distribution, sales, marketing, and legal
• Experience profiles
  – Product assurance, IP enforcement, law enforcement, Internet and information technology, and data protection
Enforcement Program Capabilities

- Protect key intellectual property
- Monitor advertising, supply, and distribution channels
- Investigate suspected infringement
- Take range of legal action
- Gather information and assess results
- Adapt to changing counterfeiting and piracy practices
- Coordinate global approach
Enforcement Program Budgeting

• Continuity and reliable funding is required for results
• Important budget items
  – Online monitoring and forensics
  – Investigators to inspect markets, identify suspected infringements and potential targets
  – Product authentication and forensics
  – Legal staff or outside counsel to take action
  – Legal action costs and expenses
  – Criminal case support
  – Training program costs and expenses
  – Trade association participation
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EXAMPLES OF ENFORCEMENT ACTIONS
Notice and Take-Down by Intermediaries

• Statutory procedures
  – DMCA safe harbors for ISPs and information location tools, Copyright Act, 17 U.S.C. §512

• Retailer and service provider programs
  – eBay Verified Rights Owner Program (VeRO)
  – Amazon Selling Policies - Prohibited Content

• Payment processors
  – VISA Merchant IP Abuse Program
Civil Litigation Examples

• Online Downloading
  – *BMG Music v. Gonzalez*, 430 F.3d 888 (7th Cir. 2005)

• Scope of Injunction
  – *Davidoff et Cie SA v. PLD Int’l Corp.*, 263 F.3d 1297 (11th Cir. 2001)
  – *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899 (8th Cir. 2012)

• Statutory Damages
  – *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899 (8th Cir. 2012)

• Secondary liability
  – *Coach Inc. v. Goodfellow*, 717 F.3d 498 (6th Cir. 2013)
  – *Columbia Pictures Industries, Inc. v. Fung*, 710 F.3d 1020 (9th Cir. 2013)
Border Enforcement Actions

- **August 27, 2013** - US Customs and Border Protection (CBP) and Consumer Product Safety Commission target counterfeit consumer products from China
  - Seized nearly $4 million in counterfeit razor blades, toys, batteries, sunglasses, and markers
  - Targeted using CPSC-defined health and safety rules

- **July 31, 2013** – U.S. and China customs authorities conduct first joint IP enforcement operation
  - Seized nearly a quarter million counterfeit consumer electronics products
  - Counterfeit APPLE, SAMSUNG, SONY, UL, and BEATS BY DR. DRE trademarks
Criminal Enforcement Actions

• **2010 to Present - Operation in Our Sites**
  – Ongoing operation launched by federal law enforcement in 2010
  – 13 investigations focused on specific products
  – Targeted websites selling counterfeit and pirated products for prosecution
  – As of June 2013, over 1,700 domain names and over $3 million seized
  – Used 18 U.S.C. § 981(k) in first ever seizure of counterfeit proceeds from Bank of China correspondent accounts
Criminal Enforcement Actions

• *June 2013 - Operation Pangea VI*
  – Focused on Internet marketing of counterfeit medicines in 100 countries
  – 175 investigators coordinated by INTERPOL and World Customs Organization
  – Supported by Center for Safe Internet Pharmacies and payment processors
  – Resulted in 58 arrests and seizure of 58,000 packages containing $41 million in counterfeit antibiotics, antidepressants, food supplements, and cancer medications
  – Shut down over 9,000 websites linked to illegal online pharmacies
Criminal Enforcement Actions

• July 2012 – Counterfeit Coupon Bust
  – Eight-week investigation by Phoenix AZ police
  – Arrested three women for selling counterfeit manufacturers coupons online
  – Seized estimated $40 million in counterfeit coupons
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ENLISTING HELP FROM LAW ENFORCEMENT
When to Contact Law Enforcement

- Civil and administrative actions would not be effective
- Counterfeiters and pirates are outside civil jurisdiction
- Criminal action could get greater and/or quicker results
- Evidence from internal investigation is still fresh
Law Enforcement Agencies

- Federal agencies
  - FBI, CCIPS, ICE, US Postal Inspector, Secret Service, National IPR Center
- State agencies
  - State police, state attorney general
- Local agencies
  - County sheriff
  - Local police departments
Requirements for Referring an Action

• Investigative dossier
  – Keep detailed and reliable records
  – Preserve and secure evidence
  – Document chain of custody
  • See CCIPS Checklist for Reporting Intellectual Property Crime

• Present targets attractive to law enforcement
  – Risk to health and safety, national security, or trade secrets
  – Potential for multiple arrests, large seizures, and deterrent publicity
What to Expect Once Your Refer

• Loss of control over investigation and case
• Forego potential for settlement and civil judgment
• Responsibility to support investigation, raids, criminal prosecution, and sentencing
Support Expected by Law Enforcement

• Briefings and training on your particular counterfeiting or piracy problem
• “Comfort” letters
• Raid support, evidentiary analysis, and valuation
• Prosecution support, including pre-trial affidavits, evidence, and expert testimony
• Sentencing support, including victim impact statements
• Publicity
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RECENT DEVELOPMENTS
Federal Laws

• FDA Safety and Innovation Act of 2012, Pub. L. 112-144
  – Authority to require drug manufacturers to notify FDA when their drugs are counterfeited

  – Authority for CBP to provide information about suspected counterfeit goods with trademark owners
  – Authority for increased criminal and government contract penalties for providing counterfeit goods and services to U.S. military and national security agencies
Recent Private Sector Initiatives

• **July 15, 2013** – Online advertisers announce best practices to reduce advertising revenue to web site operators engaged in significant piracy and counterfeiting

• **February 25, 2013** - ISPs and recording and film industries launch Copyright Alert System to monitor peer-to-peer networks, send educational notices to suspected infringers, and impose sanctions short of termination
International Law Enforcement

- **Sept. 24-25, 2013** – Europol and INTERPOL launch biannual meetings to improve international investigation of online crimes
- **March 12, 2013** - INTERPOL announces new initiative to combat counterfeit pharmaceuticals
  - Nearly 30 pharmaceutical companies pledge over $6 million to fund Pharmaceutical Industry Initiative to Combat Crime
State Law Developments

• **October 1, 2013** – First counterfeit air bag law takes effect
  – Connecticut Public Act No. 13-282
  – Makes it a felony to knowingly install, manufacture, import, reinstall or sell counterfeit automotive airbags
  – Prohibits installing a device to alter the vehicle’s diagnostic system to make a counterfeit airbag appear functional

• **September 24, 2013** – Council of State Governments adopt model law to prohibit counterfeit automotive airbags
  – Supported by Association of Global Automakers Association and Automotive Recyclers Association
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CONCLUSION