

# International Business Transactions

Unauthorized Transfer of IP Rights;  
Counterfeit Goods and Gray Markets

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# COUNTERFEIT GOODS

# Why are we supposed to care?

Counterfeiting and copyright piracy allegedly:

- threatens the economy/lost profits
- undermines competitiveness
- threatens innovation
- jeopardizes the employment
- threatens consumer health and safety
- often funds other criminal activity and organized crime.

# Seizures by US Customs Officials 2008

- The domestic value of goods seized for intellectual property rights (IPR):

\$272.7 million

- The number of IPR seizures:

14,992 (about 40 per day)

- The top trading partner for IPR seizures with a domestic value of \$221M, accounting for 81% of the total value.:

China

Source: US Customs and Border Protection; US Immigration and Customs Enforcement ([http://www.cbp.gov/linkhandler/cgov/trade/priority\\_trade/ipr/seizure/fy08\\_final\\_stat.ctt/fy08\\_final\\_stat.pdf](http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/seizure/fy08_final_stat.ctt/fy08_final_stat.pdf))

# Seizures by US Customs Officials 2008

- The top commodity seized with a domestic value of \$102.3M, which accounted for 38% of the entire value of infringing goods seized:

Footwear

- IPR seizures of products posing potential safety and security risks:

\$62.5M

- Percentage of which was pharmaceuticals:

Approximately 45%

- The following two nations accounted for 94% of all IPR seizures of products posing potential safety to security risks:

China and India

# International Treaties

# TRIPs

- Establishes a series of procedural and substantive measures (“border measures”) WTO members must adopt.
- Substantive measures include the right to seize and destroy counterfeit and pirated goods.
- Procedural measures are extensive and include:
  - Giving IP holders the right to challenge imports as counterfeit or pirated
  - Given the defendant the opportunity to be heard
  - Requiring judicial or other outside official oversight
  - Requiring that the challenging IP holder indemnify the defendant and any third parties which might be harmed as a result of wrongful detention

# TRIPs (cont.)

- Re-exportation of counterfeit goods in unaltered form is not permitted.
- Requires that criminal penalties be established for those engaging in willful trademark counterfeiting or copyright piracy on a commercial scale.
- TRIPS remedies are only available abroad in those countries (i) which has enacted TRIPs provisions and (ii) in which the IP holder has gone through the trouble and expense of securing IP protection.

# WIPO Copyright Treaty

Requires each member state:

- to provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights under this treaty or the Berne Convention and that restrict acts which are not authorized by the authors concerned or permitted by law.
- to ensure that enforcement procedures are available; and
- to ensure that remedies are stiff enough that they act as deterrents.

# US Laws

## Parital List of US Laws Addressing Counterfeiting

- Tariff Act of 1930
- Lanham (Trademark) Act
- Anti-counterfeiting Consumer Protection Act of 1996
- Digital Millennium Copyright Act
- Trademark Counterfeiting Act
- Racketeer Influenced and Corrupt Organizations Act (RICO)

# Highlights of US Protections

- Seizure of goods by customs officials (and of vehicles used to transport them) is permitted and often required.
- Destruction of the offending goods is the norm.
- Infringement actions may be filed in federal courts.
- Criminal prosecutions or treble damages actions under the Trademark Counterfeiting Act of 1984. Attorney's fees may also be recovered.
- Criminal prosecutions or injunctive/damages relief are often available.
- Requires importers to disclose the trademarked goods imported.
- Many US states have criminal statutes regarding counterfeiting.
- Domestic statutes and enforcement mechanisms do not easily succeed against foreign counterfeiters outside the US.

# Tariff Act of 1930

- Proscribes the importation of trademarked goods into the US without the consent of the owner.
  - For this to happen, the owner of the trademark must have registered the TM with the Office of Patents and Trademarks AND must have filed a certificate of registration with US customs officials (in the Department of the Treasury).
- Addresses remedies if counterfeit goods are attempted to be imported (seizure, destruction, disposition, civil fines.)
- Customs must destroy the counterfeit goods unless the owner of the IP consents to either donation to the government or to charity or to have it sold (with the offending TM erased) by auction to the public.
  - If the goods are a safety hazard, then they must be destroyed.
  - Customs cannot simply return the counterfeit goods to their source.

# Digital Millennium Copyright Act (DMCA)

- Enacted 1998
- Implemented the WIPO Copyright Treaty
- Prohibits attempts to circumvent protection device – even if access to the protected property right is not achieved and even if the person has legal right to the copyrighted work.
- Passing was difficult, lots of battles, especially between Hollywood and Silicon Valley
  - Hollywood wanted strong protections
  - Silicon Valley worried about overly broad protections which would impede the ability to engage in reverse engineering, computer security testing and encryption research

# Digital Millennium Copyright Act (DMCA)

- Prohibits the manufacture, import and distribution of circumvention technology, providing the technology:
  - Is primarily designed to hack/circumvent,
  - Has little commercial value other than hacking; or
  - Is marketed for the purposed of hacking.
- Contains felony criminal sanctions.
- Provides for civil injunctive relief and damage relief.

# GRAY MARKET GOODS

# Gray Market definitions

- A market in which the seller uses legal but sometimes unethical methods to avoid a manufacturer's distribution chain and thereby sell goods (especially imported goods) at prices lower than those envisioned by the manufacturer." (Blacks)
- A good which is "foreign manufactured.., bearing a valid US trademark, that is imported without the consent of the US trademark holder." (*K-Mart*)
- Goods produced abroad with authorization and payment but which are imported into unauthorized markets. (Folsom and Gordon, *IBT Hornbook*)
- Products manufactured with a genuine trademark that an independent importer purchases in an authorized foreign market and resells in the US without the express consent of the US trademark owner" (Weicher article)
- "Trade of a commodity through distribution channels which, while legal, are unofficial, unauthorized, or unintended by the original manufacturer. " (Wikipedia)

# Benefits of the Gray Market

## Consumers benefit:

- Provides consumers with a larger selection of goods, often at lower prices than offered through authorized distributors/retailers.
- Domestic competition is greater, which theoretically drives down prices, drives quality and service up, and increases economic efficiency.

## Manufacturers benefit:

- Unit sales will likely increase since there is more competition and product availability.

# Disadvantages of the Gray Market

## **Consumer confusion and dissatisfaction:**

- Gray market imports, though genuine goods, may not be identical or of equal quality to goods in the authorized distribution system (for example, because of different domestic technical or safety standards or different cultural contexts which the gray market goods may not have been manufactured to meet).
- Gray market goods may not be eligible for the manufacturer's warranties, services or rebates.

## **Trademark owners and authorized distributors harmed:**

- The domestic owners of the trademark and authorized distributors lose sales.
- Brand dilution may occur, especially if goods no longer are associated with a premium price or an exclusive place of sale, or if the quality of the gray market goods are not as expected.
- Gray market importers free ride on the marketing efforts (and expense) of the authorized importers and distributors

# US Statutes

## US Statutes Addressing the Gray Market:

- Tariff Act of 1930
- Copyright Act of 1976
- Lanham (Trademark) Act

# From L'anza website



L'ANZA, the leader in quality, professional hair care products, is the first and only company to offer revolutionary formulations that heal the hair. Healing is truly the foundation for beautiful hair and L'ANZA is dedicated to providing products that restore health to all hair types. L'ANZA's new generation of healing formulas deliver twice the healing power, combining time-honored natural ingredients including botanical extracts, keratin amino acids and moisturizers with the most advanced ingredients science offers.