



1 Apr 2021 Practice tips for combatting counterfeiters: an action plan for brands, manufacturers and retailers

By **Robert Masters, Lisa Martens and Katy Carlyle** **Counterfeiting is bad news not only for brands – it damages supply lines, destroys consumer confidence and is often used to fund other criminal activity.**

- **This practical guide shows rights holders how to focus efforts at the International Trade Commission and federal district courts for maximum impact.**
- **E-commerce platforms and US Customs and Border Control are also vital allies in the fight against fakes.**

It is well known in the trademark community how devastating counterfeiting can be to brand owners. Now, there is a growing realisation in the wider commercial sphere that it is just as damaging to manufacturers and retailers, with the latter subject to liability if duped into unknowingly reselling fake goods. To make matters worse, the proceeds from counterfeit products are often used to fund further criminal activities.

Brand owners can adopt a range of defensive strategies and take proactive measures – from efficient and low-cost protection to intensive enforcement actions before the federal district courts and the International Trade Commission (ITC). However, other players also have effective weapons at their disposal.

We have put together a targeted overview of existing anti-counterfeiting measures in the United States, along with practical tips for combatting counterfeits, which are available to manufacturers and retailers, as well as brand owners.

Counterfeiting in practice

The harm caused to brands by counterfeiting goes far beyond loss of sales or profits. Fake goods jeopardise public health and safety when a brand's trademark is applied to a sub-standard and potentially harmful product. This is especially hazardous for medical items.

What is more, the reputational damage inflicted by low-quality products – not to mention the negative impact on the morale of R&D and marketing teams that have worked so hard on the genuine article – can be devastating.

The Lanham Act defines 'trademark counterfeiting' as producing or selling a product bearing a false trademark that is an intentional copy of a genuine trademark (15 USC §1127). Even if an identical trademark is not used, a knock-off product may infringe trade dress or patent rights where it is made to copy the protected appearance, details and construction of a well-known product in order to mislead consumers as to the source of the product.

If a consumer is injured by a counterfeit product, anyone who manufactures or distributes the product may be liable under tort law. Retailers may also face liability for selling fraudulent, poor quality and potentially unsafe goods. In addition, they may be liable for defective counterfeit products even if they did not manufacture them.

How to protect your brand and your business – the basics

Registration with the USPTO and Customs

As a first step, brand owners should strive for holistic IP protection by registering their trademarks, trade dress, patents and copyrights. Once a trademark is registered with the USPTO, it can be recorded separately with US Customs and Border Protection (CBP). That way, CBP officers can monitor incoming shipments and seize any counterfeits bearing the mark at all borders and ports of call.

Anti-counterfeiting markings

Connected to this, brand owners should include indicators of authenticity on their packaging to clearly distinguish authentic products from counterfeits. Examples include watermarks, holograms, nanocodes and other markings that are difficult for counterfeiters to replicate. While some criminals may still attempt to copy these, consistent branding makes counterfeiting more difficult. It also helps to educate CBP officers and consumers, giving them a clear picture of what authentic products look like so that they can distinguish them from fakes.

Where a company does not own formal, registered trademarks, consistent packaging can be important evidence of use and consumer recognition. The real test for trademark infringement is consumer confusion. Therefore, consistency can provide crucial evidence at all stages of enforcement, even where brand owners are relying on common law rights.

Supply agreements

Another key strategy is to carefully vet distributors and resellers, in order to maintain control over the supply chain. Agreements with indemnity provisions, representations and warranties, and right-to-use provisions increase control and make counterfeiting more difficult. Brand owners should strive to work with their suppliers and collaborate on distinguishing genuine products from counterfeits.

Rights holders and retailers may specifically ask suppliers to see licence agreements for products. If they refuse to provide these due to confidentiality concerns, specific representations and warranties may add another layer of protection. That way, if it transpires that the supplier was not authorised to sell the goods, it will be obliged to indemnify the retailers. Brand owners often pursue retailers for counterfeiting not because they are guilty of wrongdoing but simply because they possess information that the brand owners need to identify the actual counterfeiters. Strong agreements can avoid these unnecessary conflicts.

Monitoring

Additionally, brand owners may choose to use third-party vendors to monitor the illegal use of trademarks and other types of IP infringement. Although this can be expensive, it is nearly always worthwhile. Even a relatively short disruption in sales due to the counterfeiting of a highly profitable brand can cause losses of several million dollars. Upfront monitoring can prevent such losses.

Monitoring may also protect a brand's reputation and prevent future lost sales – both of which are extremely valuable benefits, even if they are difficult to quantify.

Finally, developing a reputation for policing products and attacking counterfeiters deters potential infringers and provides a significant ROI, as counterfeiters will often switch their attentions to easier targets.

Quick and inexpensive enforcement strategies

Straightforward and cheap measures include conducting online investigations, sending cease and desist letters, and issuing formal takedown notices to e-commerce platforms and social media websites. These strategies cost little money and are often used by both in-house and outside counsel. In fact, repeating them through outside counsel once in-house counsel have exhausted their options can be an effective way to signal escalation and deter counterfeiting activity without resorting to more expensive measures.

Cease and desist letters

Cease and desist letters are an excellent starting point. They provide a quick means for direct resolution between the brand owner and the counterfeiter (or the reseller of the fake goods). Cease and desist letters may be sent to visible retailers not to punish them, but rather as an avenue to work up the supply chain and identify the actual counterfeiter.

Innocent retailers are generally cooperative and tend to halt the sale of counterfeit items immediately. They can also be a valuable source of information as to the origins of the counterfeit products.

In many instances, retailers that are knowingly involved in the sale of fake goods know when they have been caught and are keen to avoid the expensive judgments and criminal penalties that could result from litigation. However, the fact that they are involved with this illegal trade at all means that they cannot always be trusted. Even if one responds favourably to a cease and desist letter, other enforcement strategies should be pursued in tandem.

Takedowns on e-commerce platforms

Counsel can also work with e-commerce platforms to take down counterfeit listings and disable seller accounts for known counterfeiters. Traditionally, e-commerce platforms were reluctant to offer more than basic takedown procedures (eg, those under the Digital Millennium Copyright Act). However, there is an increasing trend towards more involvement from platforms, including new policies to protect brands from other forms of IP infringement beyond straightforward counterfeiting.

For example, Amazon has launched Project Zero, which uses machine learning to identify likely counterfeit listings. Its key benefit is that it allows registered brand owners with a history of successful takedowns to identify and remove listings on their own initiative, without having to notify Amazon and wait for it to take action. This is a powerful tool given that traditional notice and takedown procedures often take longer than many brand owners would like.

Enforcement through the district courts

In some instances, the trade in fake goods is so lucrative that counterfeiters may not be deterred by the previous actions. As such, brand owners must pursue more intensive enforcement strategies. Seasoned counterfeiters often make millions of dollars through their illegal activities and will go to great lengths to preserve these revenue streams. District court litigation can be a powerful weapon because it allows brand owners to enjoin the illegal activity and to recover extremely high monetary damages.

This can be done in several ways. First, brand owners may elect to recover statutory damages. The Lanham Act authorises recovery of up to \$2 million per counterfeit item for wilful counterfeiting. In one case, luxury brand Cartier was awarded \$18 million in statutory damages against a complex and wilful criminal counterfeiting enterprise.

Second, brand owners may recover actual damages, including the counterfeiter's profits and any losses suffered. Treble damages are also available for the intentional use of a counterfeit mark and for wilful trademark and patent infringement. Meanwhile, attorneys' fees are available for exceptional cases.

These types of damages add up fast, creating a powerful deterrent. In the *Cartier* case, the brand secured a \$594 million judgment given all the damages involved and the extent of the counterfeiting network. Such decisions send a clear message that a brand is committed to protecting itself.

Practice tips

All those affected by counterfeiting should have the following crucial steps on their radar:

- Identify the counterfeiter's assets at the outset to ensure that it has sufficient assets to satisfy a large damages award or other judgment. For instance, request tax returns and sales records via the discovery process, as well as employing investigators during the early stages of litigation. Bear in mind that counterfeiters may withhold evidence or submit fraudulent evidence, and their operations may be part of a larger criminal enterprise.
- Investigate fraudulent conduct by counterfeiters to support claims of wilful counterfeiting and secure treble damages awards, as authorised under the Lanham Act (15 USC §1117).
- Employ external resources to uncover sophisticated fraud, including a computer forensics expert. Seasoned counterfeiters may fraudulently alter invoices, including changing the names of counterfeit products, dates and amounts charged, in an attempt to hide evidence of their illegal activity and mitigate large damages awards. They may also submit fraudulent specimens of use to the USPTO. This can be discovered through forensic examination of the photographs submitted and other digital records to determine the actual creation date and expose fraudulent allegations of prior use in commerce.
- Engage and collaborate with downstream retailers. Retailers that have purchased products from the counterfeiter can be an important source of evidence. For instance, they may be able to supply accurate copies of invoices and other documents capturing transactions involving the counterfeiter by request or through the discovery process. A comparison of these documents may reveal fraudulent alterations.

The second line of defence

Retailers

The priority for retailers is to have proactive policies in place. They should implement procedures for identifying counterfeit goods in their inventory and for contacting legal departments as soon as a counterfeit is identified. Retailers should also implement procedures for identifying and avoiding suppliers that may be selling counterfeit products.

At the outset, retailers should always ask suppliers if they are authorised to sell a product where it appears suspicious. Additionally, they should ensure that they know their suppliers well and strive to work with trusted vendors.

Formal agreements are highly effective, especially where sellers are unwilling or unable to disclose supplier authorisation information. For instance, many supply agreements include indemnity provisions, which require the vendor to protect and assist the retailer in the event of a third-party IP infringement claim. Retailers can protect themselves by reviewing agreements and ensuring that indemnity provisions are up to date and sufficiently robust.

It can be helpful to think of counterfeiting as a shared problem between retailers and suppliers. Customers rarely focus on precisely where a problem originated. Therefore, any damage resulting from fake goods will affect brand owners and retailers alike.

Manufacturers

Manufacturers must also be prepared to combat counterfeit activity. They can educate consumers, distributors, re-sellers and retailers.

When consumers experience problems with low-quality, non-functional and, in some instances, even dangerous counterfeit products, they tend to turn first to manufacturers, often calling customer service centres. Informing consumers and others in the supply chain about counterfeit products and providing them with information about how to detect these products can be extremely beneficial.

Enforcement at the ITC

Enforcement at the ITC is another powerful option for brand owners, especially when they face the prospect of numerous counterfeits being imported into the United States.

The ITC differs from the federal district courts in a number of key ways.

First, it has jurisdiction only over counterfeits being imported into the United States. Second, a complainant at the ITC cannot recover money damages. The sole remedy is an exclusion order, barring the import of the counterfeit goods into the United States – an extremely powerful remedy.

In most counterfeiting cases, the key is to obtain an injunction to disrupt counterfeit commerce and recover the brand's market share. Complainants may secure either general or limited exclusion orders. The latter are limited to the named parties, while the former prohibit all imports of the counterfeits and any substantially identical products, even by non-parties.

In contrast to district courts, a general exclusion order at the ITC applies to counterfeits within the scope of the order, regardless of the importer. It also applies to future infringers of the product. This can be game changing for brand owners facing hundreds of counterfeits of a well-known, innovative product. For example, one famous personal care company was able to secure a general exclusion order against hundreds of counterfeiters knocking off its powered facial cleansing brush.

ITC actions also proceed at a much faster rate than district court litigation, leading to rapid injunctive relief. If a party still wishes to recover monetary damages, it may also proceed with a district court action.

ITC exclusion orders are enforced by CBP. ITC actions can only be brought for products that are imported or exported beyond the United States. Therefore, the district court is the appropriate venue for exclusively domestic counterfeiting activity. However, many well-organised counterfeiters are foreign entities.

Additionally, CBP prevents fake goods from ever being imported by seizing them at the border. As indicated earlier, many counterfeiters are highly accomplished, which is why educating CBP officers to identify genuine products and distinguish them from counterfeits is critical. Part of CBP's mandate is to prevent counterfeiting. As such, it provides training to help officers identify well-executed fakes and stop them from entering into US commerce.

Practice tips

To get the best advantage of procedures at the ITC, affected parties should have the following key actions high on their list of priorities:

- In addition to patent infringement claims, consider claims based on infringement of trade dress as an unfair trade practice to be investigated by the ITC. Unlike patents, trade dress protection does not expire and may provide a scope of protection well beyond the term of a patent, provided that the owner continues to use the trade dress.
- Where counterfeiting is widespread and there are several importers, consider claims based on trademark and trade dress infringement, as well as patent infringement. This will provide the brand owner with a basis to seek a general exclusion order with the broadest scope – in terms of both subject matter and time – to prevent counterfeiting that may occur after the ITC matter is concluded.
- Consider bringing claims at both the ITC and the federal district court. The ITC will provide injunctive relief and prevent further imports into the United States, while the brand owner can pursue monetary damages in federal district court.
- Having obtained an exclusion order, schedule a meeting with CBP to review its scope and explain:
 - the subject matter at issue;
 - the types of counterfeit found in the market; and
 - the country of origin for the counterfeit goods.
- Maintain an open dialogue with CBP to maximise the impact of the exclusion order.

The way ahead

Counterfeiters are often highly sophisticated and difficult to take down. As such, brand owners must take a variety of proactive measures, including implementing the many protection and enforcement strategies described here. But they cannot do this alone. Working closely with allies throughout the supply chain will allow brand owners to mount a stronger attack on this illegal trade than they could ever achieve alone.

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