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TRADEMARK & COPYRIGHT

An Overview of Legal Remedies Against the Trafficking in Goods Bearing Counterfeit Trademarks and Gray Market Goods Under United States Law

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I. Counterfeit Trademarks and Service Marks

A. What is a Counterfeit?

Twenty-five years ago, the word “counterfeit” generally triggered associations with bogus currency. Today, it is more likely to evoke images of fake LOUIS VUITTON bags or ROLEX watches. In common speech and most dictionaries, the word “counterfeit” means an unauthorized copy of a genuine article. Reports of counterfeit drugs, food and beverages, airplane and automotive parts, and other goods that pose a serious threat to the public’s health and safety appear in the media with ever-increasing frequency.

The federal trademark statute, the Lanham Act, focuses first on the brand, not on the article on which the brand appears. The definitional section of the statute defines a “counterfeit” as “a spurious mark that is identical with, or substantially indistinguishable from, a *registered* mark.”[1] It is therefore imperative for a brand owner to register its trademark or service mark in the United States to take advantage of federal anticounterfeiting laws. State anticounterfeiting laws generally require federal or state registration as well.[2]

Are unauthorized perfumes bearing the world-famous, federally-registered ROLLS ROYCE mark counterfeit products? Most consumers probably would think so, and that the marks would qualify as a “counterfeit” under the definition in the Lanham Act. Nevertheless, Rolls Royce would find little solace in the anticounterfeiting provisions of the Lanham Act unless it has registered its mark for fragrances. Embedded in § 34(d)(1)(B)[3] of the Lanham Act is a separate definition of the term “counterfeit mark,” which is incorporated by reference into the other federal civil anticounterfeiting provisions. As a result of this separate definition, an *ex parte* civil action under § 34(d) of the Lanham Act[4] and the availability of treble or statutory damages under §§ 35(b) and (c) of the Lanham Act[5] require that the brand owner’s registered mark be (1) in use; and (2) registered for the goods or services associated with the counterfeit mark. The federal criminal statute prohibiting trafficking in counterfeit goods or services contains an analogous definition of “counterfeit mark.”[6] The distinction between the terms “counterfeit” and “counterfeit mark” is therefore an important one, and the terms are not used interchangeably in the relevant statutes or in this article.

1 15 U.S.C. § 1127 (2006) (emphasis added).

2 *See, e.g.*, Va. Code Ann. §§ 59.1-92.12–59.1-92.13 (2008).

3 15 U.S.C. § 1116(d)(1)(B) (2006) (“counterfeit mark” defined as “a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered . . .”).

4 *Id*. § 1116(d).

5 *Id*. §§ 1117(b), (c).

6 18 U.S.C. § 2320 (2006).

Notably, a "counterfeit mark" does not need to be a reproduction of a registered mark. Defendants may be held liable for placing non-genuine articles in genuine containers, as by refilling genuine COCA-COLA bottles with another cola drink, or by selling reconditioned equipment bearing original WESTINGHOUSE labels without disclosing that the equipment is used and reconditioned.[7] Likewise, under certain circumstances, the repair of goods with unapproved parts can render the otherwise genuine trademarks originally affixed to them counterfeit.[8]

A significant loophole in the civil anticounterfeiting provisions of the Lanham Act is that they do not address the common situation of the counterfeiter who does not sell finished goods but rather labels, patches, or appliqués bearing the spurious mark, obviously intending that they will be applied to finished products further down the distribution chain. This loophole was closed in the *criminal* context with the Stop Counterfeiting in Manufactured Goods Act, as enacted on March 16, 2006.[9] In the civil context, brand owners may invoke the theory of contributory infringement, discussed below.

B. Civil Causes of Action Available Against the Sale of Goods Bearing Counterfeit Marks

The three types of claims most commonly asserted in federal civil cases involving goods bearing counterfeit marks are not unique to counterfeiting cases. They are the same basic legal theories brand owners invoke to redress other unauthorized uses of their marks:

(1) *Infringement of a registered mark under § 32(l) of the Lanham Act and applicable state law*: Section 32(l) specifically prohibits the unauthorized use of a "counterfeit" in connection with the sale, offering for sale, distribution, or advertising of any goods or services in a manner likely to cause consumer confusion.[10] As one leading treatise puts it, "counterfeiting is 'hard core' or 'first degree' trademark infringement and the most blatant and egregious form of 'passing off.'"[11]

(2) *Unfair competition under § 43(a) of the Lanham Act and applicable state laws*: Section 43(a)[12] may provide a claim for relief where the brand owner's mark has not been registered in the United States. It is frequently the most viable theory for redressing counterfeit trade dress.

7 *See United States v. Petrosian*, 126 F.3d 1232 (9th Cir. 1997); *Westinghouse Elec. Corp. v. Gen. Circuit Breaker & Elec. Supply, Inc.*, 106 F.3d 894 (9th Cir. 1997).

8 *See, e.g., Rolex Watch, U.S.A., Inc. v. Michel Co.*, 179 F.3d 704 (9th Cir. 1999).

9 Pub. L. No. 109-181, 120 Stat. 285 (2006). As enacted, the Act: (1) modifies the definition of "counterfeit mark" to include a spurious mark applied to or consisting of a label or packaging of any type designed or intended to be used on or in connection with goods/services for which the mark is registered in the PTO or that is substantially indistinguishable from such registered mark, and that is likely to cause confusion; (2) amends the U.S. criminal code to revise provisions prohibiting the trafficking in counterfeit goods/services to include trafficking in such labels or packaging; (3) clarifies that the statutory prohibition on trafficking in such illegal goods extends to barter or similar transactions; (4) subjects to forfeiture any article that bears or consists of a counterfeit mark and any property used to violate the prohibition against counterfeit marks; (5) directs a court to order the destruction of any such article and to order any person convicted of the offense to forfeit to the U.S. property used in commission of the crime and to pay restitution; and (6) provides for prison terms of up to 20 years and fines of up to $15,000,000 for repeat offenders.

10 15 U.S.C. § 1114(1) (2006).

11 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 25.10 (4th ed. 2008).

12 15 U.S.C. § 1125(a) (2006).

(3) *Trademark dilution under § 43(c) of the Lanham Act and applicable state law*s: Because counterfeiters usually choose famous marks to replicate, dilution laws such as § 43(c)[13] frequently provide an alternative claim for relief, and may be particularly useful in cases where the spurious mark is used on goods that are not covered by the brand owner's registrations, such as the ROLLS ROYCE fragrance example discussed above.

It may also be useful to analyze whether the conduct violates U.S. copyright law, particularly where the defendant's goods copy the plaintiff's logos, trade dress, package inserts, or other copyrightable content.

As previously indicated, the Lanham Act claims itemized above are commonly asserted to protect a brand owner's mark and are not unique to counterfeiting actions. The unique aspect of civil anticounterfeiting actions under the Lanham Act lies in the availability of extraordinary remedies, not in the claims themselves.

1. Removing Goods Bearing Counterfeit Marks from the Market During the Pendency of a Civil Action

Even in routine trademark infringement and unfair competition cases, courts frequently will enter a temporary restraining order followed by a preliminary injunction to stop the advertisement, distribution, and sale of infringing goods during the pendency of the action. Different federal circuits employ different formulations of the test for entry of a temporary restraining order or preliminary injunction, but the basic considerations are the same: the likelihood that the plaintiff ultimately will succeed on the merits, whether the plaintiff will suffer irreparable injury absent such relief, whether a balance of the hardships tips in favor of the plaintiff, whether the requested relief will preserve the status quo, and whether the injunction is necessary to protect third parties.[14] Cases involving the sale of goods bearing counterfeit marks generally have compelling facts to support temporary and preliminary injunctive relief.

Nevertheless, the Lanham Act also provides for *ex parte* civil seizure orders in actions arising from use of counterfeit marks. This means that, in appropriate cases, a brand owner may proceed against a defendant who is selling or distributing goods bearing a counterfeit mark, *without notice to the defendant*, and obtain a court order at the outset of the case seizing the goods, the means of making the counterfeit marks, and related documents, as well as temporarily enjoining other associated activities.

Section 34(d) of the Lanham Act[15] sets forth the requirements the plaintiff must satisfy to obtain such an *ex parte* seizure order. Some requirements relate to the facts of the case; others are procedural in nature. Although daunting in number, they are often easily satisfied in cases involving the intentional sale of counterfeits or sales by transient sellers, such as street vendors. The key requirements are:

13 *Id*. § 1125(c).

14 *See generally* McCarthy, s*upra* note 11, §§ 30:31–:32.

15 15 U.S.C. § 1116(d) (2006).

(1) The plaintiff must show that no order other than an *ex parte* seizure order is adequate.[16]
(2) The plaintiff must demonstrate it is likely to succeed in showing that the defendant used a "counterfeit mark" in connection with the sale, offering for sale, or distribution of goods or services.[17]
(3) The plaintiff must show that it will suffer immediate and irreparable harm if the seizure is not ordered.[18]
(4) The plaintiff must show that the harm it will suffer in the absence of the seizure outweighs the harm of the seizure to the legitimate interests of the defendant.[19]
(5) The plaintiff must show that, if given notice, the defendant or persons in concert with the defendant would destroy, move, or hide the matter to be seized.[20] This is a key element as it relates to the first, third and fourth elements, referenced above. Typically, it is sufficient to show that similarly-situated defendants have in the past moved, hidden, or destroyed counterfeit goods to avoid seizure, or evidence that the same defendant has not complied with court orders or has previously destroyed relevant material.[21] Thus, as the Third Circuit has explained, "street vendors, being itinerant and lacking significant assets, have relatively little to fear from the District Court's contempt powers," while "incorporated businesses with inventories, assets, and a fixed physical presence . . . have much to lose if held in contempt."[22]
(6) The plaintiff's application must identify with specificity the matter to be seized and the place where it will be located.[23]
(7) The plaintiff must not have publicized the requested seizure.[24]
(8) The plaintiff must post a bond in an amount sufficient to compensate the defendant for damages suffered in the event of a wrongful seizure.[25]
(9) The plaintiff must notify the U.S. Attorney for the district where the seizure will occur so that the U.S. Attorney has an opportunity to participate in or object to any seizure that might affect evidence in a criminal prosecution.[26] (The U.S. Attorney rarely, if ever, does so.)

The application for an *ex parte* civil seizure order must be supported by a verified complaint or affidavits establishing the required facts. The application typically includes a proposed form of order setting forth proposed findings of fact and conclusions of law; a description of the matter to be seized and the place of the seizure; the time period during which the seizure will be made,

16 *Id.* § 1116(d)(4)(B)(i).
17 *Id.* § 1116(d)(4)(B)(iii).
18 *Id.* § 1116(d)(4)(B)(iv).
19 *Id.* § 1116(d)(4)(B)(vi).
20 *Id.* § 1116(d)(4)(B)(vii).
21 *See Lorillard Tobacco Co. v. Bisan Food Corp.*, 377 F.3d 313, 320 (3d Cir. 2004).
22 *Id.* at 321.
23 15 U.S.C. § 1116(d)(3), (5) (2006).
24 *Id.* § 1116(d)(4)(B)(ii).
25 *Id.* § 1116(d)(4)(A).
26 *Id.* § 1116(d)(2).

which must be within seven days of the date of the order; the amount of security to be posted by the plaintiff; and a date for a hearing no sooner than ten days and no later than 15 days after the order is issued. The proposed order also specifies the federal, state, or local law enforcement officers who will serve the order and, upon making service, carry out the seizure.

If the court enters the order, the court will seal the order itself and the plaintiff's moving papers until after the seizure takes place. Law enforcement officers, often accompanied by the brand owner's private investigators, carry out the seizure. The court takes custody of any materials seized or may identify a substitute custodian in the seizure order. In appropriate cases, it may impose an order attaching a building where counterfeit goods are sold, freezing the assets of the alleged counterfeiter, and/or permitting the plaintiff to destroy counterfeit goods that have been seized. The court also may enter an appropriate protective order concerning any seized records and require expedited discovery. The court then conducts a hearing, unless waived by all parties, at which the plaintiff has the burden to prove that the facts necessary to support the order are still in effect. If the plaintiff does not satisfy this burden, the court will dissolve or modify the seizure order.

One disincentive to filing an application for an *ex parte* seizure action is the brand owner's potential liability for wrongful seizure. Section 34(d)(11) of the Lanham Act provides that a defendant who suffers damage by reason of a wrongful seizure has a cause of action against the plaintiff for appropriate relief, including damages for lost profits, costs of materials, loss of good will, punitive damages in instances where the seizure was sought in bad faith, reasonable attorneys' fees absent extenuating circumstances, and prejudgment interest at the court's discretion.[27] A plaintiff that has conducted a wrongful seizure obviously also stands to forfeit all, or at least a portion of, any bond or other security it has deposited with the court to support the seizure.

2. Monetary Relief Available in Civil Counterfeiting Cases

The Lanham Act provides a comprehensive scheme of enhanced monetary remedies in civil actions involving counterfeit marks, making it possible for plaintiffs to recover sizeable monetary awards. For example, in routine trademark infringement and unfair competition cases, a plaintiff is entitled to recover the defendant's profits, any actual damages sustained by plaintiff, and the costs of the action. If the court finds the amount of recovery based on profits inadequate or excessive, it may in its discretion award an appropriate amount of profits to the plaintiff. In exceptional cases, the court also may award reasonable attorneys' fees to the prevailing party.[28] Nevertheless, the plaintiff's failure to use a trademark notice may, under § 29, deprive it of the right to recover profits and damages in the absence of the defendant's actual notice of the registration.[29]

In cases involving use of a "counterfeit mark," the plaintiff may elect to recover statutory damages under § 35(c) in lieu of actual damages and profits, which may be hard to prove; counterfeiters are not known for their pristine record-keeping. Previously, the statute had authorized the court to impose such statutory damages in an amount no less than $500 and no more than $100,000 per

27 *Id.* § 1116(d)(11).

28 *Id.* § 1117(a).

29 *Id.* § 1111. A registrant may give notice that its mark is registered by displaying the symbol ® with the mark or by using the words "Registered in U.S. Patent and Trademark Office" or "Reg. U.S. Pat. & TM. Off."

"counterfeit mark" per type of goods or services offered by the defendant, or, if the court found that the use of the counterfeit mark was willful, no more than $1,000,000 per counterfeit mark per type of goods or services offered by the defendant, "as the court considers just."[30] However, a recently enacted law now promises the possibility of enhanced damages and penalties in both civil and criminal counterfeiting cases. On October 13, 2008, President Bush signed into law the Prioritizing Resources and Organization for Intellectual Property Act of 2008 ("PRO-IP Act").[31] On the trademark side, enactment of the PRO-IP Act has doubled the statutory damages available under § 1117(c), including between $1,000 and $100,000 per "counterfeit mark," and up to $2,000,000 per counterfeit mark per type of goods or services if the counterfeiting was willful.

If the plaintiff establishes that the defendant intentionally used a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services, the court has far less discretion, and enhanced damages are nearly mandatory. Absent extenuating circumstances, § 35(b) of the Lanham Act directs the court to enter judgment for three times the profits or damages ordinarily recoverable, whichever is greater, together with a reasonable attorney fee to the plaintiff.[32] In its discretion, the court also may award prejudgment interest.

In a number of cases, courts have found that evidence of "willful blindness" is sufficient to show the defendant's knowledge that a mark is counterfeit. A person who suspects wrongdoing and deliberately fails to investigate is "willfully blind."[33] A retailer who buys "obviously poorly crafted goods from an itinerant peddler at bargain-basement prices" therefore may have the requisite knowledge of the counterfeit mark.[34] The potential recovery in civil anticounterfeiting actions under the Lanham Act is significantly greater than in other actions brought under the Act.

3. Potential Defendants in Civil Anticounterfeiting Actions

A brand owner can sue most of the links in the counterfeit distribution chain (such as manufacturers, wholesalers, distributors, and retailers) as direct infringers because they have used a counterfeit mark in connection with the sale, offering for sale, distribution of, or advertising of goods or services. In recent cases, brand owners have sought to extend liability to third parties who facilitate the sale of counterfeit goods such as suppliers of parts, flea market owners, landlords of buildings, and Internet marketplace sites.

30 *Id*. § 1117(c)(1) (2004).

31 Pub. L. No. 110-403, 122 Stat. 4256 (2008) (to be codified as amended in sections of titles 15, 17, 18, 19, and 42 U.S.C., including 15 U.S.C. § 1117(c)(1)). The underlying bill, S. 3325**,** passed unanimously in the Senate and nearly so in the House in identical form. Aside from allowing for enhancement of damages and penalties, the new law has wide-ranging implications in intellectual property law, including: (a) the creation of an "IP Czar," a new Executive branch position for "Intellectual Property Enforcement Coordinator," to coordinate the efforts of various federal agencies to combat counterfeiting and other forms of intellectual property infringement; (b) application of U.S. copyright law to exportation and transshipment; (c) increasing interagency coordination and strategic planning; and (d) creating a grant program administered by the Department of Justice to provide resources to local enforcement agencies to pursue IP crimes.

32 15 U.S.C. § 1117(b) (2006).

33 *See, e.g.*, *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992); *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989).

34 *Chanel, Inc. v. Italian Activewear of Fla., Inc.*, 931 F.2d 1472, 1476 n.5 (11th Cir. 1991) (characterizing fact pattern in *Louis Vuitton S.A. v. Lee*). *But see Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 515 (S.D.N.Y. 2008), *appeal pending* (willful blindness may not be found "unless the defendant knew of a high probability of illegal conduct and purposefully contrived to avoid learning of it, [e.g], by failing to inquire further out of fear of the result of the inquiry").

Liability may be predicated on a theory of contributory infringement "if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement."[35] Under this test, courts have imposed civil liability on landlords of flea markets if the landlord knew or had reason to know that its premises were being used for the sale of counterfeit goods.[36] The same rule applies to landlords of shops selling counterfeits.[37] A theory of contributory liability also may help in reaching parties other than the direct infringer who facilitate the sale of counterfeit goods, where the third party and the infringer have an apparent or actual partnership, authority to bind one another in transactions with others, or exercise joint ownership or control over the infringing product.[38]

To date, U.S. courts have been reluctant to extend liability for contributory infringement to Internet marketplace sites through which counterfeit goods are sold. For example, in *Tiffany (NJ) Inc. v. eBay, Inc.*,[39] the Southern District of New York rejected an attempt by renowned jeweler Tiffany to impose liability on the online marketplace eBay, on a theory of contributory trademark infringement, based upon the allegedly pervasive sale of counterfeit goods by third parties on its site. Tiffany's appeal to the Second Circuit is pending. European courts have issued conflicting opinions in similar cases. In a case involving the sale of counterfeit perfume, a Belgian court did not hold eBay liable.[40] On the other hand, courts in France and Germany have extended liability in such cases.[41]

4. Criminal Prosecution Options in Counterfeiting Cases

Federal criminal prosecutions of counterfeiters are relatively rare in part because such cases are often perceived to be business disputes that are better addressed through civil channels. In 2007, for instance, U.S. Attorneys around the country filed a total of 200 cases under all of the federal criminal anticounterfeiting statutes combined and only 177 cases were resolved or terminated.[42] Nevertheless, prosecutors have a number of statutes under which they can indict if they choose to do so.

With respect to trademark counterfeiting, the 1984 Trademark Counterfeiting Act made trafficking in "counterfeit marks" a federal crime for the first time. Section 2320 of the federal criminal code provides that a defendant who intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark in connection with such goods or services shall: (1) in the case of an individual defendant, be fined not more than $2,000,000 or imprisoned not more than 10

35 *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 854 (1982).

36 *See Hard Rock Cafe Licensing*, 955 F.2d 1143; *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

37 *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648 (S.D.N.Y. 1994).

38 *David Berg & Co. v. Gatto Int'l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989).

39 *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 502–18 (S.D.N.Y. 2008). Notably, just two weeks before this decision was announced, a French tribunal had found eBay liable for guilty negligence for its lack of action in preventing the sale of fake Louis Vuitton leather goods and Christian Dior handbags, and ordered eBay to pay millions of Euros to those businesses. *See S.A. Louis Vuitton Malletier v. eBay, Inc.*, Dkt. No. 2006077799, Commercial Court of Paris, 1st Section B, June 30, 2008.

40 *Lancôme Parfums et Beaute & Cie v. eBay Int'l AG*, No. A/07/06032, Commercial Court in Brussels, July 31, 2008.

41 *See SA Louis Vuitton Malletier v. eBay, Inc.*, Dkt. No. 2006077799; *Christian Dior Couture SA v. eBay, Inc.*, Dkt. No. RG 2006077807, Commercial Court of Paris, June 30, 2008; *SA Parfums Christian Dior v. eBay, Inc.*, No. RG 2006065217, Commercial Court of Paris, June 30, 2008; *Montres Rolex SA v. eBay, Inc.*, German Federal Supreme Court, July 27, 2007.

42 *See* U.S. Dep't of Justice, FY 2007 Performance and Accountability Report, App. F Intellectual Property Report–2007, F-4 (2007), *available at* http://www.usdoj.gov/ag/annualreports/pr2007/appd/p17-46.pdf.

years, or both; (2) in the case of a defendant who is not an individual, be fined not more than $5,000,000.[43] The statute imposes harsher penalties for repeat offenders. Brand owners and their legal representatives have a statutory right to submit victim impact statements for consideration during sentencing and may be entitled to restitution under 18 U.S.C. §§ 3663(a) and 3664(a). Other remedies, including seizure of the goods bearing the counterfeit mark, vehicles, equipment and storage facilities, are also available.

The elements of the criminal offense under 18 U.S.C. § 2320 are:

(1) The defendant trafficked in or attempted to traffic in goods or services. "Traffic" means "to transport, transfer, or otherwise dispose of, to another, as consideration for anything of value, or make or obtain control of with intent so to transport, transfer, or dispose of . . . ."[44] ("Use in commerce" under the Lanham Act is a broader concept, covering, *inter alia*, the sale or transportation in commerce of goods and the offering of services in commerce).

(2) The defendant engaged in such actual or attempted trafficking intentionally. This is the first prong of the intent element in § 2320; the second prong is that the defendant must knowingly use a counterfeit mark, as discussed in Item 4, below.[45]

(3) The defendant used a "counterfeit mark" on or in connection with such goods or services. To summarize, a "counterfeit mark" as defined in the Trademark Counterfeiting Act is analogous to the Lanham Act's definition discussed in Part I.A. above: (a) a spurious mark that is used in connection with trafficking in goods or services; (b) that is identical to or substantially indistinguishable from a mark registered on the principal register in the U.S. Patent and Trademark Office ("PTO") and in use for the goods or services at issue; and (c) that is likely to cause confusion, mistake, or deception.

(4) The defendant knew that the mark so used was counterfeit. It is not, however, necessary for the prosecutor to prove that the defendant knew the mark was registered or his activity was criminal. The legislative history of the statute describes the requisite knowledge as "awareness or firm belief to that effect."[46] Here, as in the civil context, proof that the defendant was "willfully blind" to the fact that the mark was counterfeit should meet the knowledge requirement.[47]

U.S. Attorneys turn to other statutes to beef up prosecutions under 18 U.S.C. § 2320, including, among others:

(1) Criminal conspiracy under 18 U.S.C. § 371;

(2) Entry of goods by means of false statements under 18 U.S.C. § 542;

43 18 U.S.C. § 2320 (2006). As noted, *supra* notes 3–6, the definition of a "counterfeit mark" in the criminal statute is analogous to the definition of that term in the civil context, 15 U.S.C. § 1116(d)(1)(B).

44 *Id.* § 2320(e)(2).

45 *See United States v. Hon*, 904 F.2d 803, 806 (2d Cir. 1990); *United States v. Gantos*, 817 F.2d 41, 43 (8th Cir. 1987); *United States v. Baker*, 807 F.2d 427 (5th Cir. 1986).

46 130 Cong. Rec. H12076 (daily ed. Oct. 10, 1984) (Joint Statement on Anticounterfeiting Legislation).

47 *Id.*

(3) Smuggling goods into the U.S. under 18 U.S.C. § 545;
(4) Mail fraud under 18 U.S.C. § 1341;
(5) Wire fraud under 18 U.S.C. § 1343;
(6) Money laundering under 18 U.S.C. §§ 1956 and 1957, which specifically identify trademark counterfeiting under 18 U.S.C. § 2320 as one of the types of "specified unlawful activity;"
(7) The Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §§ 1961, *et seq*., which specifically lists trafficking in counterfeits as a predicate offense;
(8) Trafficking in counterfeit labels for phonorecords and copies of motion pictures and other audio-visual works under 18 U.S.C. § 2318; and
(9) Criminal infringement of a copyright under 18 U.S.C. § 2319.

Before 1984, when Congress passed 18 U.S.C. § 2320, criminal enforcement was up to the states. Today, state criminal anticounterfeiting laws often provide a useful supplement or alternative to federal law. State law enforcement authorities can sometimes be persuaded to act on a brand owner's complaint when federal authorities will not. Further, state criminal statutes on occasion fill in the gaps in federal anticounterfeiting law where, for example, the mark at issue is not registered, or is registered for goods and services other than those on which the counterfeit mark appears.

Various states have imposed criminal penalties against counterfeiting, typically under forgery and criminal simulation misdemeanor statutes. New York, California, and Florida—three states in which significant counterfeiting activity has occurred—have each enacted modern penal statutes to combat trademark counterfeiting. Since 1995, numerous other states have followed suit and enacted variants on the Model Trademark Counterfeiting Bill prepared by the International Anticounterfeiting Coalition in 1995 (and revised in 2006).[48]

C. Interdiction of Imported Goods Bearing Counterfeit Marks by U.S. Customs

Since 2003, two agencies under the auspices of the U.S. Department of Homeland Security have supplanted the U.S. Customs Service, and both play important roles in preventing the importation of counterfeit goods: U.S. Customs and Border Patrol ("CBP") and U.S. Immigrations and Customs Enforcement ("ICE"). CBP is responsible for inspections and enforcement at the United States borders to prevent harmful or illegal materials or persons from entering the country, while ICE is responsible for enforcing customs and immigration laws within the United States and internationally, as well as investigating those who breach United States border security. ICE thus functions as the criminal enforcement arm of CBP.

The Tariff Act includes special seizure and forfeiture provisions applicable to imported goods bearing a counterfeit mark.[49] These are implemented through CBP regulations contained in 19 C.F.R. § 133.21 (2008). Curiously, although the Tariff Act defines a "counterfeit mark" by reference to the Lanham Act definition discussed in Part I.A. above,[50] the implementing regulations

48 *See generally* Trademark Counterfeiting in the United States § 4.05 and Apps. 4.1, 4.2 (Brian W. Brokate & Dawn Atlas eds., 2008).
49 19 U.S.C. § 1526 (2006).
50 15 U.S.C. §§ 1116(d)(1)(B), 1127 (2006).

do not employ the same definition. Instead, the regulations use the new term "counterfeit trademark" and define it the same way the Lanham Act defines a "counterfeit," namely, "a spurious trademark that is identical to, or substantially indistinguishable from, a registered mark."[51] The regulations then provide that any articles imported into the United States "bearing a counterfeit trademark shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violation of the customs laws."[52] Under this regulation, then, CBP may seize goods even if the brand owner does not own a registration of the mark covering the same goods on which the counterfeit mark is used, or does not itself use its mark on such goods.

A brand owner may also obtain information that can be useful in identifying sources and sellers of counterfeits as a result of CBP seizures. Within thirty days of a seizure of counterfeit goods, CBP will provide the trademark owner notice of the seizure along with identifying information about the date, port, merchandise, quantity, manufacturer, exporter, and importer.[53] The brand owner also may obtain a sample of the seized merchandise upon posting a bond.[54] Forfeited goods are destroyed unless the brand owner consents to alternative dispositions.[55]

At a minimum, brand owners with counterfeiting problems should take the following two basic steps to enhance their ability to stop counterfeits from entering the country: (1) apply to register its key marks with the PTO, and (2) record the resulting registrations with CBP. Registration and recordation are sometimes confused; recordation refers to the process of notifying CBP of the existence of the federally-registered trademark and supplying certain information to avoid detention of shipments of genuine products. An applicant for recordation must provide a certified copy of the registration certificate and information concerning the trademark owner, registration, contact persons, place of manufacture of genuine goods, and authorized licensees, subsidiaries, and other authorized users or importers.[56] The recordation fee currently is $190 per class recited in the registration.

The trademark registration recordation is entered into a centralized database that is accessible to CBP officers at all ports. An extract of the recordation information is available on the Internet at *http://www.cbp.gov/xp/cgov/trade/automated/modernization/*, where it is possible to search for recordations by mark or by owner.

While recordation is not mandatory for CBP to seize counterfeit goods, it substantially increases the likelihood that CBP will act, and it carries several distinct benefits, particularly because port personnel are not encouraged to enforce unrecorded rights. For example, when CBP officers locate a suspect shipment, they must decide quickly whether to release, detain, or seize the goods. They have five days to detain the shipment if the goods appear counterfeit, and thirty days to determine the authenticity and admissibility of detained shipments. The contact information provided in the recordation assists CBP in coordinating with the brand owner to make a timely determination

51 19 C.F.R. § 133.21(a) (2008).
52 *Id.* § 133.21(b).
53 *Id.* § 133.21(c).
54 *Id.* § 133.21(d).
55 *Id.* § 133.21(b).
56 *See id.* §§ 133.1–.3.

whether the detained goods are real or fake. Moreover, if a trademark registration is recorded, CBP will stop not only counterfeits but all infringing imports (with the possible exception of gray market products as discussed in Part II.E.1 below).

CBP officers have the resources to inspect only a small percentage of goods entering the country. They target shipments for examination based on such information as past seizure history, country of origin, the type of goods, the name and address of the importer and shipper, and the method of shipment. Brand owners can provide CBP with information about shipments of suspected counterfeits to improve the chances of intercepting the shipment.

D. Components of an Effective Anticounterfeiting Program

Anticounterfeiting programs must be customized to meet a brand owner's specific needs, objectives, and resources. The discussion that follows highlights some of the basic components of an effective anticounterfeiting program in the United States.

1. Establish Means for Identifying Genuine Goods

It is imperative to be able to distinguish easily between real and counterfeit goods. Many brand owners employ coding, tags or other devices on their products, labels and/or packaging for this purpose. This is particularly important for companies whose product lines change frequently, because the characteristics of the genuine product are more difficult to identify as the product designs change. The first step in any anticounterfeiting program is training company representatives, customs, and law enforcement officers in identifying the counterfeits. Clear-cut guidelines to authenticate genuine goods are essential.

2. Understand the Scope of the Problem in Each Country

Reacting to isolated reports of counterfeit activity—such as the street vendor spotted by the CEO on the way to work—rarely puts a dent in the problem. The brand owner should endeavor to collect as much information as possible about the nature and extent of counterfeiting activities to formulate effective strategies. Market sweeps and Internet monitoring are two ways to gather information. Such intelligence can also be gleaned from employees, customers, private investigators, other brand owners, law enforcement, and customs officials, among others. Training and education of these parties to sensitize them to anticounterfeiting issues often plays a critical role.

3. Develop a Coordinated Global Approach

Counterfeiting is a global problem, and tackling it can be daunting. It is therefore important for a brand owner to develop a comprehensive strategy and be prepared to fine-tune it along the way. A brand owner should define the metrics by which the success of its enforcement program will be judged. Instruction and coordination of a brand owner's global enforcement activities should be centralized to permit it to allocate resources where needed, pursue counterfeiting activity across borders, and accumulate information and know-how.

4. Establish Procedures for Reporting Problems

The brand owner should identify a "point person" within its organization to whom suspected counterfeits are reported and a form of capturing important information to pursue the problem. It should follow through by educating people to be on the lookout for suspected counterfeits and to use the procedures for reporting them. A brand owner should consider posting an Internet page or establishing a telephone hotline to permit the public to report problems.

5. Establish Procedures for Documenting Purchases, Maintaining Evidence of the Chain of Custody, and Authenticating Product

To avoid the loss of evidence, procedures should be established to mark and track suspected counterfeits. Similarly, persons in the brand owner's organization should be trained to inspect the suspected counterfeit, verify whether it is real or fake, identify with specificity the reasons for that conclusion, and document the foregoing. Appointing a knowledgeable company point person will also assist customs and law enforcement personnel when they need assistance authenticating products.

6. Build a Centralized Database

The brand owner should enter information about sellers and possible sources of counterfeits into a centralized, searchable database, which should include, where available, the date, product sold, action taken, relationships with other suspected wrongdoers, and how the seller or source was identified. While it may be relatively easy to keep track of matters at the outset of an anticounterfeiting program, doing so becomes increasingly more difficult over time and as matters multiply. Establishing a useful database at the outset will be invaluable going forward.

7. Register Key Trademarks in Each Country of Concern

Registration of key trademarks is the cornerstone of a successful anticounterfeiting program. In many countries, absent a registration, a brand owner cannot take action against even blatant counterfeiting. A registration program should be closely coordinated with enforcement efforts, and registrations should be audited periodically to ensure that they are current and adequately cover the goods and services in all significant jurisdictions where problems are being encountered.

8. Record Trademark Registrations with Customs

Recordation of trademark registrations with customs, if permitted in the country at issue, increases the likelihood that customs will assist in enforcement. A brand owner should audit such recordations periodically to ensure that they are current and cover the goods and services where problems are being encountered.

9. Provide Training and Authentication Materials to Customs and Law Enforcement

While recording trademark registrations with customs authorities in the countries of interest is a first step, it is also usually advisable to implement a training program. Brand owners that make the effort to provide training and authentication criteria to customs and law enforcement personnel often observe significant increases in seizures of counterfeit goods. While it is often difficult to get law enforcement officials interested in acting on a specific complaint, they will frequently act on their own initiative when they are aware of the counterfeiting problems of a given brand and have the means at hand to identify fakes.

10. Assemble a Network of Anticounterfeiting Investigators

Most brand owners with strong anticounterfeiting programs use private investigators as their eyes and ears in the marketplace, and their liaison with law enforcement. Many of the best anticounterfeiting investigators work for numerous individual brand owners and split the cost of law enforcement training and enforcement activities among their clients. Further, they are often retired law enforcement officers with good connections, and can facilitate criminal investigations and seizures. Building a network of solid investigators can greatly enhance a brand owner's anticounterfeiting program and facilitate joint actions with other brand owners.

11. Monitor Websites and the Online Market

The Internet is a powerful investigative tool. Because online markets are a haven for counterfeiters, brand owners should consider incorporating an Internet monitoring program into their overall anticounterfeiting program. Some brand owners have found that wholesale quantities of counterfeits of their branded goods are readily available online.

12. Take Appropriate Action Against Sellers and Sources of Counterfeits

There are many options for pursuing counterfeiters, including customs seizures, civil and criminal actions, and (in some countries) administrative proceedings. The brand owner and its counsel should choose an avenue appropriate for each individual case, and then follow through to the extent possible. The brand owner will have to prioritize its counterfeiting problems and should pursue the most egregious ones first. It is extremely important to follow through with each suspected manufacturer and seller of counterfeits once they have been identified. Brand owners who develop a reputation of being vigilant in enforcing their rights often achieve far better results.

13. Participate in Brand Owners' Groups and Trade Lobbying Groups

There are numerous formal and informal groups of brand owners who have banded together to fight shared counterfeiting problems. Some canvas flea markets on behalf of their members; some support specific law enforcement efforts; and some organize law enforcement training programs. Joint efforts, of course, reduce the cost borne by any one brand owner.

II. Gray Market Goods

A. Defining "Gray Market Goods"

The phrases "gray market goods" or "gray goods" refer to goods that are legitimately sold abroad under a particular trademark and then imported into the United States and sold in competition with goods offered by the trademark owner. A less pejorative name for these goods is "parallel imports." For better or for worse, the more commonly accepted and employed reference is gray market goods.

The typical gray market scenario involves the unauthorized importation into the United States of genuine goods that are not intended for sale or distribution in the United States, which are then sold at a price below that of the authorized U.S. goods bearing the identical trademark. For instance, gray market problems may arise if a trademark owner creates a lower-priced version of a product that is sold under its trademark in a developing country, and a higher priced (and perhaps higher quality) version sold under the same trademark in the United States. Similarly, some products are constructed or formulated in different ways to suit national conditions and standards or to account for local tastes. Soap sold under a particular trademark abroad, for example, might smell differently or have less lather than soap sold under the same trademark in the United States.[57]

The concern over gray market goods is generally threefold: (1) their sale in the United States might undercut the market for the genuine U.S. version; (2) their sale can disrupt pricing and distribution relationships in territories where the goods are sold; and (3) their sale can adversely impact the goodwill associated with the U.S. trademark. Further, counterfeits often enter the market through the gray market, and brand owners sometimes find mixed shipments of counterfeit and gray market goods. For these reasons, trademark owners often seek to block the sale of such goods in the United States under a variety of legal theories.

B. Legal Grounds for Prohibiting Gray Market Goods

There are four major statutory bases for relief against the importation and sale of gray market goods into the United States:

(1) Sections 32 (covering registered marks) and 43(a) (covering unregistered marks) of the Lanham Act;[58]
(2) Section 526 of The Tariff Act;[59]
(3) Section 42 of the Lanham Act;[60] and
(4) Section 602(a) of the U.S. Copyright Act.[61]

Although at first blush it would appear that private parties have a strong arsenal of legal remedies, the reality is that the available remedies have significant limitations that hinder their utility in stemming the flow of gray market goods into the United States.

C. Viability of Claims Against Sellers of Gray Market Goods

A codification of the common law tort of trademark infringement,[62] § 32 of the Lanham Act, provides the owner of a federally registered mark with a cause of action against anyone who uses

57 *See, e.g.*, *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951 (S.D. Fla. 1986).

58 15 U.S.C. §§ 1114, 1125(a) (2006).

59 19 U.S.C. § 1526 (2006).

60 15 U.S.C. § 1124 (2006).

61 17 U.S.C. § 602(a) (2006).

62 *See Jordache Enters. v. Hogg Wyld, Ltd.*, 828 F.2d 1482, 1484 n.2 (10th Cir. 1987).

a "reproduction, counterfeit, copy, or colorable imitation" of the mark without the consent of the owner.[63] Similarly, § 43(a) of the Act allows the owners of registered or unregistered marks to bring infringement actions against defendants using "false designation[s] of origin."[64] The test for determining whether a plaintiff is entitled to relief under either of these sections turns on whether the defendant has used a mark likely to cause confusion that its goods are produced, sponsored, certified, or approved by the plaintiff or, alternatively, that the plaintiff's goods are produced, sponsored, certified, or approved by the defendant.[65]

As a general rule, "[c]ases where a defendant uses an identical mark on competitive goods hardly ever find their way into the appellate reports. Such cases are 'open and shut' and do not involve protracted litigation to determine liability . . . ."[66] Nevertheless, under the "first sale" or "exhaustion" doctrine, a branded product may be purchased and resold without change, assuming that there is no deception present in the resale process. Thus,

> the trademark owner cannot ordinarily prevent or control the sale of goods bearing the mark once the owner has permitted those goods to enter commerce. It can be said that the rights of the trademark owner are exhausted once the owner authorizes the initial sale of the product under the trademark . . . .[67]

As one court has described this principle:

> Under this doctrine . . . a markholder may no longer control branded goods after releasing them into the stream of commerce. After the first sale, the brandholder's control is deemed exhausted. Down-the-line retailers are free to display and advertise the branded goods. Secondhand dealers may advertise the branded merchandise for resale in competition with the sales of the markholder (so long as they do not misrepresent themselves as authorized agents).[68]

Consequently, "[i]t would be absurd to hold that a manufacturer could sell a branded product to a [gray market] distributor without restriction and then tell the distributor that it could not resell the branded goods without either paying for a trademark 'license' or removing the trademark."[69]

63 15 U.S.C. § 1114 (2006).

64 *Id.* § 1125(a).

65 As Justice Stevens has explained:

> [T]he test for liability is likelihood of confusion: "[U]nder the Lanham Act . . . , the ultimate test is whether the public is likely to be deceived or confused by the similarity of the marks. . . . Whether we call the violation infringement, unfair competition, or false designation of origin, the test is identical—is there a 'likelihood of confusion?'"

Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 780 (1992) (Stevens, J., concurring) (alteration in original) (quoting *New W. Corp. v. NYM Co. of Cal., Inc.*, 595 F.2d 1194, 1201 (9th Cir. 1979)).

66 McCarthy, *supra* note 11, § 23:20.

67 Restatement (Third) of Unfair Competition § 24 cmt. b, at 254 (1995).

68 *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1173–74 (S.D.N.Y. 1984) (citations omitted).

69 McCarthy, *supra* note 11, § 25:41.

1. The Significance of Common Control and Materially Identical Goods

The first sale doctrine applies with full force in gray market infringement litigation involving genuine goods that are identical to their domestic counterparts and that are produced by affiliated businesses. For example, in *NEC Electronics v. CAL Circuit Abco*,[70] NEC-Japan, a manufacturer of computer chips, assigned all rights to the registered NEC trademark to its wholly-owned subsidiary, NEC-USA.[71] The defendant subsequently purchased chips from a foreign source[72] and marketed them in the United States under the NEC mark.[73] Faced with the undercutting of its domestic market, NEC-USA brought an infringement action under §§ 32 and 43(a) against the importer.[74] The Ninth Circuit, however, denied relief on the ground that no actionable confusion was possible under these circumstances.

Similarly, in *American Honda Motor Co. v. Carolina Autosports Leasing and Sales, Inc.*,[75] the defendant imported goods bearing the HONDA mark that had been manufactured in Guam. Invoking both §§ 32 and 43(a) of the Lanham Act, the plaintiff, a wholly-owned subsidiary of the Japanese owner of the mark, maintained that it had developed a separate U.S. goodwill in the mark and therefore was entitled to preliminary injunctive relief.[76] The court, however, denied relief in light of the corporate relationship between the plaintiff and the mark owner.[77] Moreover, the court held, "[t]here is no evidence or contention by the Plaintiff that there is any false designation of origin, or any false description or representation. The automobiles sold by the Defendants are manufactured by the registered owner of the trademark—Honda Co."[78] Under cases such as *NEC Electronics* and *American Honda*, therefore, if there is no evidence that the marks affixed to goods sold by a domestic plaintiff and a foreign manufacturer represent separate goodwill, then the goods' importation is not actionable.

2. The Significance of Material Differences in Gray Market Goods

A likelihood of confusion may be found in gray market cases if (1) the gray market good was not intended to be sold in the United States, and (2) there are material differences between the gray market good and the domestic version.[79] The "material difference" rule protects consumers from confusion that arises when the consumer does not obtain the "genuine" product, namely, the same product that the trademark owner has authorized for sale in the United States. The rule also protects the brand owner's goodwill from erosion due to the fact that the goods sold do not share the same characteristics as the owner's domestic goods. In essence, the unauthorized importation and sale of

70 810 F.2d 1506 (9th Cir. 1987).

71 *Id.* at 1507.

72 The parties stipulated that the chips marketed by Abco were genuine NEC products. *See id.* at 1507–08.

73 *Id.* at 1508.

74 *Id.*

75 645 F. Supp. 863 (W.D.N.C. 1986).

76 *Id.* at 866.

77 *Id.*

78 *Id.*

79 *See, e.g.*, *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir. 1987); *Société Des Produits Nestlé, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992).

materially different product will turn an otherwise genuine product into an unlawful one,[80] and may even result in a finding that the good now bears a counterfeit mark.[81]

Thus, for example, the pharmaceutical company Novartis has succeeded in two separate cases in blocking the further sale of gray market pet medicine bearing its marks. In the first case, the plaintiff escaped a finding that it had exhausted its trademark rights by demonstrating to the court's satisfaction that the challenged goods differed in numerous respects from their domestic counterparts: (1) they failed to comply with U.S. packaging requirements; (2) they had different active ingredients; (3) they were available without a prescription; and (4) they were accompanied with information specific to the Australian market.[82] The plaintiff's showing in the second case was similar: (1) the imported goods were not flavored, as were their domestic counterparts; and (2) their labeling failed to comply with FDA regulations.[83]

In a case handled by Kilpatrick Stockton, Zino Davidoff SA has established that even a difference invisible to consumers can be material and transform goods that are otherwise identical to those authorized for sale in the United States into infringing product.[84] In that case, the difference between the genuine product authorized for sale in the United States and the unauthorized product was the removal of a unique serial number used for quality control and anticounterfeiting purposes. This case underscores that brand owners can enhance their ability to prevent the diversion of their products through unauthorized channels of distribution by implementing a legitimate quality assurance program that affords ongoing benefits to consumers after the point of first sale.

As these outcomes demonstrate, the existence of material differences will trump the possibility that the exhaustion doctrine otherwise might preclude relief. Thus, the law is quite clear that in the gray goods context the first sale or exhaustion rule applies *only* to the resale of genuine goods that are essentially identical to those authorized for sale in the United States. The first sale doctrine will not apply if the gray market goods being challenged differ materially from authentic goods authorized for sale in the domestic market.

Whether a difference is indeed "material" for Lanham Act purposes turns on whether consumers likely would consider the difference to be relevant when purchasing a product. Minimal differences that are not likely to impact consumers' expectations do not provide a basis for liability under the Lanham Act. The differences have to be sufficiently significant to make it obvious to the average consumer that the origin of the product differs from his or her expectations (i.e., that the foreign product is not the genuine U.S. product). Moreover, material differences need not be physical, but can consist of differences in warranty protection, service commitments, add-ons, bonus features, the

80 *Société des Produits Nestlé*, 982 F.2d 633; *see also Martin's Herend Imps., Inc. v. Diamond & Gem Trading USA Co.*, 112 F.3d 1296 (5th Cir. 1997); *R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc.*, 52 U.S.P.Q.2d 1052 (N.D. Ill. 1999).

81 *See Johnson & Johnson Consumer Cos. v. Aini*, 540 F. Supp. 2d 374, 387 (E.D.N.Y. 2008).

82 *See Novartis Animal Health US Inc. v. LM Connelly & Sons Pty. Ltd.*, 75 U.S.P.Q.2d 1513, 1516–18 (S.D.N.Y. 2005).

83 *See Novartis Animal Health US Inc. v. Abbeyvet Exp. Ltd.*, 409 F. Supp. 2d 264, 266–67 (S.D.N.Y. 2005).

84 *See Zino Davidoff SA v. CVS Corp.*, No. 06-CV-15332(KMK), 2007 WL 1933932 (S.D.N.Y. July 2, 2007), *appeal docketed*, No. 07-2872-CV (2d Cir. July 3, 2007).

removal of product codes, and the like.[85] A number of courts have made clear that the threshold of materiality is not great.[86]

Not all differences, though, are material. For instance, a difference in pricing is not a material difference.[87] Similarly, superficial differences in quality control between authorized inspected imports and unauthorized uninspected imports are unlikely to be sufficient to establish a material difference.[88] Further, the mere fact that goods may be shipped from the United States and then imported back into the country, absent a clear showing that something happened to the goods in the course of overseas shipping, will not constitute a material difference.[89]

D. Available Remedies in Gray Market Goods Litigation Under Sections 32 and 43(a)

A brand owner that is successful in an action under §§ 32 and 43(a) of the Lanham Act is entitled to the full panoply of remedies for trademark infringement under the Act, including injunctive relief, damages, destruction orders, and an award of attorneys' fees in exceptional cases.[90]

E. Other Private Causes of Action Available to Gray Market Plaintiffs

1. The Tariff Act

Under § 526 of the Tariff Act, a trademark owner can bar the importation of any product that "bears a trademark owned by a citizen . . . of the United States, *and* [is] registered in the Patent and Trademark Office."[91] Although § 526 expressly contemplates only a point-of-entry "shield" administered by CBP, both the Federal Circuit and at least one federal district court have held that the statute also creates a "sword" in the form of a private cause of action against importers.[92] This prohibition does not require the trademark owner to show that a likelihood of confusion exists. As in the context of actions under §§ 32 and 43(a), however, this "extraordinary protection" does not apply in situations where the U.S. trademark owner and the foreign manufacturer are corporate affiliates or otherwise are subject to common ownership or control.[93] Thus, for example, parallel

85 *See*, *e.g.*, *Société des Produits Nestlé*, 982 F.2d at 639 n.7.

86 *Id.* at 641 ("[T]he threshold of materiality must be kept low."); *Original Appalachian Artworks*, 816 F.2d at 73 (finding to be materially different identical Cabbage Patch Kids dolls licensed for sale in Spain, but sold without accompanying documents provided to American doll owners such as birth certificates, adoption papers, and birthday cards); *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44, 46 (3d Cir. 1991) (finding a material difference in the one-half calorie difference in composition of TIC-TAC breath mints, plus slight differences in packaging and labeling); *Philip Morris, Inc. v. Allen Distribs., Inc.*, 48 F. Supp. 2d 844, 853 (S.D. Ind. 1999) (finding material the lack of redemption program benefit and differences in the storage of cigarettes); *Fender Musical Instruments Corp. v. Unlimited Music Ctr.*, 35 U.S.P.Q.2d 1053, 1056 (D. Conn. 1995) (deeming material the differences in FENDER guitars in the shape of the neck, replacement parts, available colors, and manufacturer's warranty terms); *Zino Davidoff SA v. PLD Int'l Corp.*, 56 U.S.P.Q.2d 1753, 1757 (S.D. Fla. 2000) (finding a material difference in removal of product codes from gray market goods), *aff'd*, 263 F.3d 1297 (11th Cir. 2001).

87 *See, e.g., Mavic, Inc. v. Sinclair Imps., Inc.*, No. Civ. A. 93-2444, 1994 WL 7703 (E.D. Pa. Jan. 12, 1994).

88 *See, e.g., Iberia Foods Corp. v. Romeo*, 150 F.3d 298 (3d Cir. 1998).

89 *See, e.g., Am. Home Prods. v. Reliance Trading Co.*, 55 U.S.P.Q.2d 1756 (C.D. Cal. 2000).

90 *See* 15 U.S.C. §§ 1116–1118 (2006).

91 19 U.S.C. § 1526(d) (2006) (emphasis added).

92 *See Vivitar Corp. v. United States*, 761 F.2d 1552, 1570 (Fed. Cir. 1985); *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1165 (S.D.N.Y. 1984).

93 *See, e.g., Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659 (3d Cir. 1989); *Yamaha Corp. of Am. v. ABC Int'l Traders Corp.*, 703 F. Supp. 1398 (C.D. Cal. 1988), *aff'd in relevant part,* 940 F.2d 1537 (9th Cir. 1991). *But see Vittoria N. Am., L.L.C. v. Euro-Asia Imps. Inc.*, 278 F.3d 1076, 1085 (10th Cir. 2001) (evidence of joint decision-making and cooperative efforts "is not evidence of control, but only of [U.S. importer's] understandable desire to preserve a good business relationship with [foreign manufacturer]").

imports of goods manufactured abroad by a subsidiary, parent, or affiliate of the U.S. distributor and/or U.S. trademark owner cannot be excluded under § 526.

To invoke the statute, the brand owner must show that (i) the U.S. trademark is owned and registered in the United States by a party that is completely independent of the foreign manufacturer and in which the U.S. party has separate goodwill, and (ii) the U.S. trademark registration has been recorded with CBP. The remedies contemplated by § 526 include injunctive relief, the destruction of the gray market goods, and damages.[94] An important advantage of a claim under § 526 is that, unlike claims under the Lanham Act, a trademark owner may be able to exclude gray goods that are identical to the authorized U.S. goods, not just goods that are materially different, provided that no common control over the trademark owner and the foreign manufacturer exists. The major limitation of § 526 is that there is no bright-line test in the statute for determining whether complete independence exists between the U.S. trademark owner and the foreign manufacturer. Consequently, a claim under § 526 often can involve much litigation over the U.S. trademark owner's relationship with the foreign manufacturer.

2. Dilution Principles

Independent of the relief available in an infringement action, the owners of certain well-known marks also may be eligible for protection against the use of the same or similar marks that threaten the distinctiveness of the senior mark. Relief against this type of injury is authorized by so-called "dilution" statutes, which are generally available only to the owners of truly famous marks. Consequently, if a mark has not acquired a high degree of fame and distinctiveness, its owner for the most part will be limited to causes of action based on the likelihood of confusion standard.[95]

Where a mark *is* sufficiently famous and distinctive to qualify for protection under a dilution theory, relief may be available under both state and federal law.[96] The current federal dilution statute, which became effective in November 2006, provides that:

> Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.[97]

94 *See* 19 U.S.C. § 1526(c) (2006).

95 *See, e.g.*, *Star Mkts., Ltd. v. Texaco, Inc.*, No. 95-01018BMK, 1996 WL 769210, at *4 (D. Haw. Nov. 8, 1996).

96 *See, e.g.*, *Nike Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352 (S.D. Ga. 2003), *aff'd*, 107 F. App'x 183 (11th Cir. 2004) (NIKE trademark diluted by defendant's use of NIKE mark on counterfeit goods); *Bayer HealthCare LLC v. Nagrom, Inc.*, No. CIV.A.03-2448KHV, 2004 WL 2216491, at *4 (D. Kan. Sept. 7, 2004) (ADVANTAGE anti-flea medication for animals found "famous"; court entered consent judgment holding importation of materially differing gray market product to violate federal dilution statute); *Bayer Corp. v. Custom Sch. Frames, LLC*, 259 F. Supp. 2d 503, 509 (E.D. La. 2003) (same).

97 15 U.S.C. § 1125(c)(1) (2006).

Over half of the states have enacted similar dilution statutes, with others adopting the doctrine by judicial decree.

The implication for gray market goods cases may arise because the first sale doctrine is available as a defense to dilution claims arising out of the sale of such goods. For example, in *Minnesota Mining & Manufacturing Co. v. Rauh Rubber, Inc.*,[98] the court held that the plaintiff's rights did not extend beyond the first sale of its products in interstate commerce based on an unusual fact pattern. The plaintiff, a manufacturer of reflective products sold under the 3M mark, sold scrapped materials to the defendant, believing that the defendant would undertake only to recycle them. The defendant, however, sold certain of the materials to third parties for their intended use and apparently under the plaintiff's trademark.[99] Under these circumstances, the court rejected the plaintiff's federal dilution claims, noting the absence of "any cases where a court has found trademark dilution from [the post-sale] use of the trademark holder's own products."[100]

3. Section 602(a) of the U.S. Copyright Act

U.S. copyright laws also may provide an additional weapon in stemming the flow of gray market goods into the United States. To the extent that the gray market goods involve copyrighted works (e.g., films, videos, books, or recordings), or aspects of goods that are copyrightable (e.g., packaging of the goods), that are manufactured abroad, copyright protection may be available to prevent a seller from importing such goods into the United States.

Under § 602(a) of the Copyright Act, the unauthorized importation of goods acquired outside the United States into the United States is an infringement of the copyright owner's exclusive right to distribute under § 106 of the Copyright Act.[101] However, as interpreted by the Supreme Court in *Quality King Distributors Inc. v. L'Anza Research International, Inc.*,[102] under the first sale doctrine embodied in § 109(a) of the Copyright Act, goods manufactured *domestically* and then sold abroad are not subject to the prohibition on import under § 602(a). Thus, if the gray market goods were manufactured in the United States and sold abroad, there can be no violation of § 602(a) if the goods make their way back into this country.

L'Anza, however, did not address the issue of whether the first sale doctrine would apply to ban the parallel importation of goods of foreign manufacture that also are acquired abroad. Prior to *L'Anza*, a number of decisions had held that the sale abroad of foreign manufactured goods did not terminate the U.S. copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a).[103] Accordingly, pre-*L'Anza*, a copyright holder could rely on § 602(a) to prevent

98 943 F. Supp. 1117 (D. Minn. 1996), *aff'd*, 130 F.3d 1305 (8th Cir. 1997).

99 *Id.* at 1122–23.

100 *Id.* at 1132; *see also R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc.*, No. 99-C-1174, 2001 WL 526676, at *2 (N.D. Ill. Mar. 22, 2001).

101 17 U.S.C. §§ 602(a) (2006).

102 523 U.S. 135 (1998).

103 *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994); *Columbia Broad. Sys., Inc. v. Scorpio Music Distribs, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd,* 783 F.2d 421 (3d Cir. 1984); *T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575 (D.N.J. 1987); *Hearst Corp. v. Stark*, 639 F. Supp. 970 (N.D. Cal. 1986).

the importation into the United States of gray market goods that had been manufactured and sold abroad.

Whether these pre-*L'Anza* holdings are still valid law is open to debate. There is language in the majority opinion that suggests the first sale doctrine might apply even to foreign manufactured goods, but Justice Ginsburg, in a one-paragraph concurring opinion in *L'Anza*, firmly noted that the Court's opinion did not extend to foreign manufactured goods.[104]

A recent decision in the Ninth Circuit follows Justice Ginsburg's suggestion. In *Omega, S.A. v. Costco Wholesale Corp.*,[105] the Court explicitly stated that the first sale doctrine is unavailable as a defense to copyright infringement actions if an otherwise legitimate item was manufactured and first sold outside of the United States. The opinion contains a lengthy analysis of the *L'Anza* decision, but finds—in light of the majority's very brief discussion on extraterritoriality, as well as Justice Ginsburg's unanswered caveat—that that opinion is not "clearly irreconcilable" with the Ninth Circuit's "general limitation of [the first sale doctrine] to copies that are lawfully made in the United States."[106]

At the present time, whether a claim under § 602(a) involving foreign manufactured goods will succeed appears to be an open issue outside of the Ninth Circuit. Indeed, an earlier decision in the Southern District of New York disregarded Justice Ginsberg's admonition regarding the application of § 602(a) to foreign manufactured copies.[107]

4. Assistance Available from CBP in Excluding Gray Market Goods

a) Possible Bases for Interdiction of Gray Market Goods by CBP

Brand owners can rely on two statutes to obtain the assistance of CBP to prevent gray market goods from entering the United States. That assistance, however, is limited, as CBP has taken a rigid approach to excluding gray market goods.

For example, under § 526 of the Tariff Act, CBP can exclude, seize, and/or seek the forfeiture of gray market goods that feature a trademark owned by a citizen of the United States, registered in the PTO, *and* recorded with CBP.[108] In interpreting § 526, however, CBP has made it clear that it will not exclude infringing goods if (i) the foreign and U.S. trademarks are owned by the same entity, by

104 *See L'Anza*, 523 U.S. at 154 (Ginsburg, J., concurring) ("we do not today resolve cases in which the allegedly infringing imports were manufactured abroad").

105 541 F.3d 982, 987–90 (9th Cir. 2008) (reversing district court's decision in favor of Costco: first sale doctrine unavailable as defense to claims of infringing distribution and importation for unauthorized sale of authentic, imported watches bearing registered design).

106 *Id.* at 987.

107 *See U2 Home Entm't, Inc. v. Lai Ying Music & Video Trading, Inc.*, No. 04 Civ. 1233DLC, 2005 WL 1231645, at *9 (S.D.N.Y. May 25, 2005) (granting summary judgment and an award of $7.05 million against a company for, among other things, importing foreign copies of copyrighted works in violation of § 602(a) of the Copyright Act), *vacated in part on other grounds*, 245 F. App'x 28 (2d Cir. Apr. 9, 2007).

108 19 U.S.C. § 1526 (2006).

parent and subsidiary companies, or by companies subject to common ownership and control, or (ii) the foreign goods bear a mark used under license from the U.S. trademark owner.[109]

Similarly, under § 42 of the Lanham Act, a party can seek to bar the importation of goods bearing a mark that *copies* or *simulates* a registered trademark.[110] Section 42 does not create a cause of action against the infringing seller, but instead provides a means for trademark owners to obtain an order to exclude gray market imports through CBP. One important difference between § 42 of the Lanham Act and § 526 of the Tariff Act is that § 42 can preclude goods bearing a mark that copies or simulates a U.S. trademark, whereas § 526 is limited to goods bearing the identical trademark.

In interpreting § 42 of the Lanham Act, a number of courts have limited availability as a tool to exclude gray market goods by holding that it does not apply if the gray goods are genuine goods that are materially identical to their domestic counterparts or the genuine goods are made by companies that are affiliated or under common control or ownership. Nevertheless, § 42 does continue to provide trademark owners with a means of excluding gray market goods entering the United States when the goods involved are physically and materially different from the authorized U.S. versions. For example, both the District of Columbia and First Circuits have held that § 42 of the Lanham Act bars importations of gray market goods if the goods bear the same trademark as their domestic counterparts but are materially different, regardless of the affiliation between the producing parties.[111]

b) Relief Available from CBP Against the Importation of Gray Market Goods

CBP's role in excluding gray market goods is quite limited. In a situation involving gray market goods that fall within the parameters of § 526 of the Tariff Act, CBP can exclude, seize, and seek forfeiture of the gray market goods.[112] For example, in situations where the imported goods are physically and materially different, but originate from affiliated parties or parties under "common control or ownership," CBP has provided limited relief. A trademark owner can apply for what is known as "*Lever*-rule protection," named after the D.C. Circuit's *Lever* decision.[113] A trademark owner can have CBP bar the importation of goods that are physically and materially different if they are not properly labeled to make clear that the gray market goods are different from their U.S. counterparts.

To obtain *Lever*-rule protection, a trademark owner must file an application with CBP describing with competent evidence the physical and material differences between the gray market goods and

109 A trademark owner may also be able to obtain an exclusion and cease and desist order by filing a complaint with the International Trade Commission ("ITC") pursuant to § 337 of the Tariff Act, 19 U.S.C. § 1337. Upon filing a complaint, the ITC will make a determination as to whether it will institute an investigation and refer the matter to a hearing before an Administrative Law Judge. While initiating an ITC proceeding is a rarely sought avenue for relief in the context of gray market goods, for reasons that are beyond the scope of this article, it is nevertheless a possible weapon to be considered.

110 15 U.S.C. § 1124 (2006).

111 *See generally Société des Products Nestlé, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992); *Lever Bros. v. United States*, 877 F.2d 101 (D.C. Cir. 1989), *summary judgment granted on remand*, 796 F. Supp. 1 (D.D.C. 1992), *aff'd in part, vacated in part*, 981 F.2d 1330 (D.C. Cir. 1993).

112 *See, e.g., United States v. Eighty-Nine* (89) Bottles of "Eau de Joy," 797 F.2d 767 (9th Cir. 1986).

113 *See* Lever Bros., 877 F.2d at 109–11.

their U.S. counterparts.[114] The trademark owner does not need to prove infringement, only that the goods are physically and materially different. If the application is granted, the gray market goods can enter the United States only if they are properly labeled with the following legend:

> This product is not a product authorized for sale by the United States trademark owner for importation and is physically and materially different from the authorized product.[115]

The label needs to appear in close proximity to the trademark in its most prominent location. The label cannot be removed until after the first point of sale to a retail U.S. consumer.[116]

While the protection afforded by *Lever*-rule protection is limited, the primary advantage to a trademark owner is the ability to have the gray mark goods detained by CBP. The burden is then on the importer to show that the goods are identical so that *Lever*-rule protection does not apply, failing which the only way the importer can have the goods released is by labeling them in conformity with the legend set forth above—which at the very least will provide some means of distinguishing the gray market goods from their authorized U.S. counterparts.

III. Conclusion

U.S. trademark owners have a number of avenues to prevent or limit the flow of gray market goods that are materially different from the authorized U.S. goods, but their recourse is limited by the first sale doctrine when the gray goods are identical to the authorized U.S. goods. The best means for brand owners to prevent the importation of gray market goods is, therefore, to differentiate the products they offer in different geographic markets. For example, a brand owner can strengthen its ability to take action against sellers of gray market products by introducing differences in the appearance of products and packaging; labeling variations; differences in service commitments, rebates, add-ons, or bonus features; and differences in quality control procedures between the products authorized for sale in the United States and in foreign territories. In addition, brand owners should consider placing geographic and resale limitations in their agreements with distributors and licensees, consistent with applicable antitrust laws, to have possible contract remedies against the sellers diverting the gray market goods.

114 *See* 19 C.F.R. § 133.2(e) (2008).

115 *Id.* § 133.23(b).

116 *Id.*