



REINVENTING CBP'S ANTI-COUNTERFEITING MEASURES

Stop Counterfeit Goods

Ensure Due Process Rights for Importers

Facilitate Timely Decision-making and Release of Genuine Goods

-
- 1. *CBP's Existing IPR Policies And Procedures Require Re-Engineering To Protect Against Entry Of Counterfeit Goods.*** The increasing presence of counterfeit goods in US commerce requires that CBP improve its ability to identify and seize violative goods. CBP is challenged by the volume of imports arriving in the US, the sophistication with which goods are counterfeited, and the serious health and safety concerns raised by many types of counterfeit products.
 - 2. *CBP Must Also Improve Its Ability To Ensure Prompt Decision-Making And Release Of Lawful Products.*** Under current anti-counterfeiting procedures, CBP often causes unnecessary or prolonged detentions, and discriminatory product seizures which result in the loss of sales, profit and industry good will. The re-engineering of anti-counterfeiting protocols should alleviate rather than aggravate these problems.
 - 3. *All U.S. Importers Should Cooperate With CBP To Ensure Prompt Verification Of Product Authenticity.*** Any new or enhanced IPR-related procedures must provide a meaningful opportunity for U.S. importers to expedite verification of product authenticity, including meaningful notice of the goods being held and any IPR issues involved, an opportunity to inspect questioned goods and segregate unquestioned goods, and a reasonable opportunity to address questions of authenticity.
 - 4. *CBP Must Not Shift To IPR Owners Its Responsibilities To Identify Counterfeit Goods While Safeguarding Confidential Import Information And Timely Releasing Legitimate Goods***
 - 5. .** There is a great temptation for CBP to rely upon IPR owners, and not CBP officials or importers, to authenticate goods. For example, the administration has proposed that CBP be authorized to provide samples to IPR owners -- prior to seizure and without protecting the confidentiality of the information involved in the importation -- based upon the suspicion of a CBP inspector that the goods might be counterfeit. IPR owners may have a role in helping CBP determine whether or not a product is counterfeit, but CBP must retain ultimate responsibility and control, must avoid disclosure of commercial information to competitors of lawful importers, and must provide a meaningful opportunity for U.S. importers to protect their proprietary business information and authenticate their goods. .
 - 6. *CBP Must Not Adopt A One-Size-Fits-All Approach To All Products And All Industries.*** Certain products pose particularly difficult challenges to CBP's anti-counterfeiting efforts, such as high-tech products identifiable only through specific proprietary technical expertise; products posing special health, safety and security risks; and digital media with demonstrated history of sophisticated and early pirating. Special protocols should be fashioned to address these special problems, but those protocols are not needed or appropriate for other products or industries. Most industries and importers can expeditiously satisfy CBP of product authenticity through available information, laboratory testing, examination of product labels, et al.
 - 7. *Distribution Of Coded Samples To IP Owners Is Disclosure Of Confidential Business Information To A Competitor.*** It is well-established that certain manufacturers embed products with hidden tracking codes solely to control and manipulate consumers' access to genuine merchandise. This is often the case in industries where such tracking codes are not necessary to verify product authenticity or to otherwise protect the welfare of the American consumer. Because these codes are created to identify the manufacturers' *desired*

supply chain, the codes are easily relied upon by manufacturers to retaliate against other, third party distributors and/or importers.

- 8. Importers And Distributors Deserve The Identical Rights To Due Process As All Other U.S. Importers.** U.S. importers with lawful title and ownership rights in genuine merchandise are entitled to due process procedures and protection of their proprietary business information. The preservation of these rights faces a great challenge each time CBP reviews an importation of branded products sold outside the manufacturer's anticipated distribution chain. In those instances, providing third party intellectual property owners with unredacted product samples (i.e., products that bear tracking codes identifying proprietary supply chain information) prior to a determination that goods are counterfeit and/or prior to providing an opportunity for the importer to respond, constitutes a disclosure of proprietary information to a competitor and a denial of any due process standard. CBP has the obligation and the ability to avoid this problem, by adopting procedures which (i), request or require importer verification of product authenticity as a condition of entry; (ii) allow redaction of pre-seizure samples in all cases except where special circumstances justify; and/or (iii) adopt third-party testing which protects commercial information.
- 9. Importer Safeguards Are Paramount To Protect Against Additional Entry Delays And To Protect The Rights Of All U.S. Importers.** AFTA understands that that the disclosure of product samples to rights holders by CBP of possibly counterfeit goods prior to detention can help CBP to make an early and accurate determination whether the goods are counterfeit. However, CBP has an equal if not greater obligation to avoid inappropriate, unnecessary or premature disclosure of confidential commercial information to third party commercial competitors. CBP can meet that obligation by any of several approaches, such as by providing the importer an opportunity to establish authenticity of its goods, providing for third-party testing, obtaining the information or expertise from the copyright owner for CBP to authenticate goods, et al. Moreover, if CBP does adopt a rule to provide coded samples to rights holders prior to seizure, it should also simultaneously adopt procedures to protect against undue delay in cooperating and the unlawful use such information to the detriment of lawful third party importers and their suppliers..

The Article on the following pages is reprinted from the June 2011 edition of "American Shipper"

Too black-and-white for 'gray' market?

IPR enforcement proposal goes too far, trade attorney says.

BY ERIC KULISCH

The U.S. government's expressed desire to better identify counterfeit goods by sharing trade data with original product makers, and assisted in some way by freight intermediaries, doesn't sit well with Gilbert Lee Sandler.

Sandler's law firm, Miami-based Sandler, Travis & Rosenberg, represents companies that buy brand-name products in the so-called "gray" market, and import them into the United States to sell at a discount. Regulators' attempts to change the rules governing the confidentiality of data managed by U.S. Customs and Border Protection could unfairly harm those legitimate importers, he said.

"I oppose counterfeiting, and my clients do too. On the other hand, when the government gets aggressive, sometimes it makes mistakes. So you need safeguards there to make sure you're not disrupting legitimate trade," Sandler said.

Under the Privacy and Trade Secrets acts, information about any transaction disclosed to Customs is required to be kept confidential. The White House Intellectual Property Enforcement Coordinator (IPEC) recently recommended that Congress give CBP authority to share detailed transactional information and un-redacted samples with trademark rights holders when officers suspect shipments entering the country include counterfeit or unlicensed products. The purpose is to get help from the party that can best tell a fake from an original.

CBP, which has placed greater priority

on anti-counterfeit and piracy efforts in the past couple of years, has embraced the new power. Commissioner Alan Bersin said in speeches that customs brokers are in a position to help identify companies or people who are stealing intellectual property. As part of an effort to overhaul regulations governing the broker industry, CBP has vaguely suggested that brokers should do more to vet their clients, certify shipments and be the trusted conduit for sharing certain types of importer information.

But officials so far have not provided any concrete proposals about how CBP would actually exercise its new authority or how brokers would be asked to contribute to the enforcement effort.

Many manufacturers will vary the price of goods depending on the country or region of the world where they are sold. "Gray" or "secondary" market transactions typically occur when a company buys genuine, brand-name products from a reseller in a foreign country and then imports them to the United States instead of buying the items directly from the manufacturer for domestic sale.

The transactions make sense because the overseas price may be so much less that the importer can still cover its international transportation costs, sell the products at a discount and make a profit.

Sandler, who has served in private practice for more than 30 years after a stint as a Justice Department attorney specializing in customs matters, said the danger of sharing a sample or shipment data is that inspectors may not understand the difference between a counterfeit good and an unauthorized, legal import of that particular brand. That may expose the distributor to retaliation by the rights holder,



Sandler

AMERICAN SHIPPER: JUNE 2011

Please contact Lee Sandler, Esq. (lee@aftaus.com) or Lauren Perez (lauren@aftaus.com) for more information

who can cut off contracts to authorized buyers that resell the product.

Manufacturers and marketers, he argued, have an unlimited right to control the sale of genuine products, but only have limited rights with respect to their distribution. Copyright protection doesn't apply after the first sale, he said.

Under the first-sale doctrine, those who buy copyrighted works can do what they want with it. Copyright law, according to many legal analysts, is to protect creative work, not to control the price of manufactured products.

In December, the Supreme Court split 4-4 in a case involving Costco Wholesale, the popular warehouse club store, and Swiss watchmaker Omega. The decision let stand a lower court ruling that Costco violated U.S. copyright law by selling Omega watches in the United States without Omega's permission. The rule essentially said that copyright protection applies to products made overseas. The watches are not copyrighted, but a small logo of a globe on the watches is.

The Seamaster watch in question has a suggested retail price of \$1,995. Costco sold the watch for \$1,299.

"Costco should be given the opportunity to demonstrate those goods are genuine before that data about the transaction is given to Omega," Sandler said.

"I think the IPEC recommendation misses the mark because they don't have a means for keeping information confidential when there's a mere suspicion the goods are counterfeit."

To the extent that Costco can't prove the goods are legal, the government should have a means of determining a product's validity without disclosing confidential information, he added.

The American Free Trade Association, comprising companies that operate in the secondary market and represented by ST&R, filed an amicus brief supporting Costco's position. Also supporting Costco were Target Corp., eBay, Amazon.com and the Retail Industry Leaders Association.

The Supreme Court ruled six years ago against a shampoo maker in the United States, saying its products were not protected simply because it had a copyright label on the bottle. In that case, the products were made domestically for sale in Europe, but bought by distributor Quality King and imported back to the United States. Representatives for RILA argued last year that upholding the lower court ruling against Costco — and applying copyright law to foreign, but not U.S.-made goods — would simply allow copyright

owners to move production overseas to prevent the lawful resale of merchandise at discounted prices.

Aligned against Costco were the Motion Picture Association of America, electronics manufacturers and publishers. Opponents claim that the gray market collectively costs them billions of dollars per year in lost sales.

Brokers should not be given responsibility for product validation information because "that's out of their area of expertise and creates exposure for them," Sandler said.

"The challenge to CBP and the trade," he said, "is how to stop the counterfeit goods but facilitate the release of the genuine ones."

Sandler complained that Omega, which is owned by Swatch, and other producers aren't being consistent in their approach to trade facilitation.

"My message to the trademark owners is, every one of you is an importer. And every one of you, when the government announced new security or customs compliance programs, food safety or Lacey Act provisions were the first to say we've got to support legitimate trade, not just enforce the law.

"You need to be saying that on intel-

lectual property rights too," he said.

The veteran trade attorney said there is a simple solution if brand owners don't like their products legally coming through the international backdoor: have a uniform pricing structure.

"If you didn't want stuff coming back to the United States then you shouldn't have sold it overseas at a different price. Obviously, they made a decision they could still make a profit selling to places like China at one-third of the price. It's just a way to segment the market and limit competition," Sandler said.

"The only reason to do that is because you want to maintain high prices in the United States and sell at much lower prices outside the United States. That's not good economic policy and it's not what's contemplated by the Copyright Act and trademark laws," he said.

The Business Software Alliance said in a pro-Omega brief to the court that pricing differentiation is very important to the software industry.

"With cross-border collaboration and communication ever more frequent ... the software platforms that enable this interaction must be available throughout the world — and at prices that reflect each country's market realities," it said. ■