



**PROPRIETARY TRADE SECRETS AND DUE PROCESS RIGHTS OF THIRD PARTY IMPORTERS
MUST BE PROTECTED**

**CBP Must Not Provide Rights Holders With Product Samples Until And Unless The Importer Has An
Opportunity To Prove Authenticity and/or Redact Product Distribution Codes**

1. ***Product Distribution Codes contain highly sensitive and confidential information, protected under the Privacy Act and Trade Secret Protections.*** It is well known that consumer products are often coded with visible and invisible Distribution Codes to track product distribution.
2. ***Distribution of coded samples to IP owners is disclosure of confidential business information to a competitor.***
 - Distribution Codes are different than, for example, Batch Codes which are useful for product recalls.
 - Distribution Codes, which cannot be understood by consumers and may not even be seen except under ultraviolet or infrared light, are clearly not necessary or useful for recall or anti-counterfeiting purposes.
 - Distribution Codes can be easily copied by counterfeiters and are similarly useless for purposes of confirming product authenticity
3. ***If products with Distribution Codes are provided to third parties (i.e. parties not involved in the importation of the goods), the information can be and has been used to control downstream distribution and retail prices, actions which may violate US law.*** Accordingly, any law which permits CBP to provide samples of goods to third parties with those codes intact and before those goods are released into the commerce creates a substantial risk that sensitive commercial information will be revealed to competitors.
 - This empowers CBP inspectors to trigger a killing blow to lawful parallel market Importers based upon a mere suspicion of a CBP inspector that goods are counterfeit.
 - It deprives Importers of due process and of any opportunity to protect their commercial information and relationships.
 - It conflicts with the written recommendations of the IPEC to safeguard confidential information in any new initiatives to provide coded samples and
 - It conflicts with the public vote of COAC not to pursue this change in law.
 - No effort has been made to protect against unauthorized use or disclosure of proprietary importer information to destroy competition in the U.S. marketplace
 - No undertaking is posted, or sworn affirmation required to assure that the IP owner will safeguard confidentiality under penalty of law or compensate importer for consequential damages which flow from damaging disclosure

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

- 4. *Earlier disclosure of samples can be authorized if statutory safeguards are also adopted.*** AFTA appreciates that rights holders and CBP may believe that the need to disclose product samples of allegedly infringing goods prior to detention is helpful to their making an accurate determination whether the goods are counterfeit. However, it is critical that CBP not prematurely or inappropriately disclose confidential commercial information to third party commercial competitors in contravention of existing law and/or without simultaneously implementing protections against unlawful reliance upon such information to the detriment of lawful third party importers and their suppliers.
- CBP should not provide coded samples, or transactional and supply chain information, to rights holders until the importer of the shipment in question has had an opportunity to prove the products are genuine (i.e. manufactured under authority or license of the U.S. rights holder) and/or until after consultation with an independent testing company on a confidential basis.
 - CBP should establish a program under which IP owners provide the information and tools necessary for CBP to determine authenticity of coded samples without providing samples to the IP owner.
 - Should CBP decide that certain disclosure of what would otherwise be considered protectable trade secrets is appropriate as a means of facilitating entry of non-infringing articles, rights holders should declare and warrant that such information will not be further disclosed to third parties or relied upon for any purpose other than determination of authenticity of the goods, failing which any resulting liability and damages will be assumed and born solely by such rights holder or its surety.

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

understand that it means jobs for their kids and grandkids, neighbors and friends," Tuttle said. "However, there is a tipping point. I would assume that it is different from market to market. But to ask for a premium price, you have to offer a better quality product — not just it was made here."

Since 2008, Made in USA Certified has approved more than 45 companies to use its "Made in USA Certified Seal." Some of these companies include Tough Traveler, Kona's Chips, Alliance Rubber, Orchid Island Juice Co., USA Flag Supply, and USA Coffee Co.

Reisersaid her firm also helps companies with promoting their U.S.-made products. "Just certifying your products are 'Made in the USA' isn't enough," she said. "We go out with press releases to increase exposure."

Once a product is certified "Made in the USA," it also remains important for companies to continue monitoring their compliance with the certification.

"With modern global business, sourcing changes are a huge risk in many ways — quality control, unforeseen costs, and qualification of goods for NAFTA, to name a few," Luther said. "Purchasing personnel may find a cheaper source for material overseas and simply go with it, without being aware of the consequences."

"For a company operating globally, it's imperative to build compliance considerations into core business decisions," he said. "Suppliers of components and materials should be advised that no changes to origin or sourcing should be made without prior coordination with compliance personnel. Companies should also be careful with products produced in multiple locations, or with materials obtained from multiple sources. It can create real headaches if a given component is obtained from domestic as well as foreign sources."



Luther

"Imported articles must be marked with country of origin, but there's no requirement to mark goods 'Made in the USA' in the U.S. marketplace," Luther said. "Because the standard is hard to meet, it's usually safer to have no mention of origin on domestically made products."

Under the Buy American Act and other domestic content requirements for government contracts, companies typically have to certify goods as qualifying. Contractual penalties are assessed against those who violate this aspect of their contracts.

"For example, if you're a manufacturer

of transmissions and sell them to a truck maker with a government contract, your contract may have liability provisions such that you — the transmission maker — will be responsible if the truck doesn't qualify because your transmission's not qualifying," Luther explained. "And these things are subject to audit by the purchaser or their appointed auditors."

He said another "odd wrinkle" comes into play with goods produced in the United States for the export market, if they happen to be returned.

"Suppose you make an item in the U.S., using obvious foreign components, say a drill press with a Japanese motor," Luther explained. "You sell this to Europe, where it must be marked with 'Made in the USA.' (The 'substantial transformation' definition of country of origin would be used; Europe is not trying to protect the 'Made in the USA' brand.) If these products are returned for some reason, there will be obvious violations of the 'Made in the USA' rules for the U.S. market."

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.



Sandler

"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,

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. ■

If you want containers to lounge, get them slippers and a cappuccino.

ALABAMA STATE PORT AUTHORITY
asdd.com