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## Trademark Counterfeiting: An Unpunished Crime

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## COMMENTS

### TRADEMARK COUNTERFEITING: AN UNPUNISHED CRIME

#### I. INTRODUCTION

In the United States today, trademark<sup>1</sup> counterfeiting<sup>2</sup> remains

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<sup>1</sup> The following is the statutory definition of a trademark:

The term 'trademark' includes any word, name, symbol, or device, or any combination thereof . . . used by a person, or . . . which a person has a bona fide intention to use in commerce and applies to register on the principle register . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

15 U.S.C. § 1127 (1988).

Today, the exclusive right to use a trademark is granted by the federal government for 10 years upon registration in the Patent and Trademark Office. 15 U.S.C. § 1058. The trademark owner has the option of unlimited renewal for additional 10 year terms upon the filing of an affidavit indicating that the mark is still in use. 15 U.S.C. § 1059.

This Comment does not address the problem of copyright counterfeiting. The statutory definition of a copyright follows:

Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories: (1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; and (7) sound recordings.

17 U.S.C. § 102 (1982). Criminal sanctions for counterfeiting copyrighted materials also exist. See 18 U.S.C. § 2319 (1982).

<sup>2</sup> Counterfeiting is the most egregious form of trademark infringement. A mark infringes a registered trademark when it is used without the permission of the owner of the registered trademark, and is confusingly similar to the registered trademark. See 15 U.S.C. § 1114 (1988). Counterfeits do not include goods which merely imitate other goods. See Wells, *Mirror Images*, *N.Y. Times*, Feb. 21, 1988, (Magazine), at 76, col. 3 (cosmetic trade consists of many low cost imitators of more expensive goods that are not infringements).

Under both the criminal and civil definitions, the term "counterfeit mark" refers to a "spurious mark which is identical with, or substantially indistinguishable from, a registered mark." 130 CONG. REC. H12076, H12078 (daily ed. Oct. 10, 1984) (Joint Legislative Explanatory Statement) [hereinafter Joint Statement]. Another commentator has stated that "[p]roduct counterfeiting is nothing less than the theft for profit of a firm's reputation and product through the use of deception." Comment, *The Effects of Foreign Product Counterfeiting on U.S. Industry*, 82 PAT. & TRADEMARK REV. 471, 472 (1984). Prod-

a scourge to manufacturers attempting to protect their marks and to consumers who seek authentic goods. Congress enacted the Trademark Counterfeiting Act of 1984<sup>3</sup> ("the Act") to grapple with the problem of trademark counterfeiting. The Act imposes criminal sanctions<sup>4</sup> for trademark counterfeiting and increases civil remedies<sup>5</sup> by codifying the right of trademark owners to obtain ex parte seizure orders<sup>6</sup> and treble damages.<sup>7</sup> Trademark counterfeiting, however, continues to harm manufacturers through damaging the reputation of goods,<sup>8</sup> adverse product liability suits,<sup>9</sup> legal and investigative fees,<sup>10</sup> the loss of the legal rights in the mark,<sup>11</sup> and lost revenue to counterfeit sales that range as high as an estimated twenty-five billion dollars a year for American companies.<sup>12</sup>

Counterfeiting costs the United States jobs as well, with an esti-

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uct counterfeiting is a broad term that includes the counterfeiting of trademarks as well as copyrights. The use of the term in this Comment is restricted to trademarks. Similarly, the term piracy usually refers only to copyrights, but in this Comment, cited authors sometimes use the term to refer to trademarks as well as copyrights.

<sup>3</sup> Pub. L. No. 98-473, 98 Stat. 2178 (codified in 18 U.S.C. § 2320 (1988) and as amended in 15 U.S.C. §§ 1116-1118 (1988)).

<sup>4</sup> 18 U.S.C. § 2320.

<sup>5</sup> 15 U.S.C. §§ 1116-1118.

<sup>6</sup> 15 U.S.C. § 1116(d)(1)(A); see *infra* notes 216-233 and accompanying text.

<sup>7</sup> 15 U.S.C. § 1117(b); see *infra* notes 234-240 and accompanying text.

<sup>8</sup> Comment, *supra* note 2, at 472. Counterfeits disparage the reputation of genuine goods because they are usually of much poorer quality. Consumers may not realize that the good is counterfeit, and may mistakenly associate the poor quality of the counterfeit with the quality of the genuine and thereby decide not to buy the genuine. Counterfeits of poor quality arise in many different products; for instance, oil filters made of recycled asparagus cans and toilet paper plague motor boats. Banse, *Repair Parts: The Name-Brand Game*, MOTOR BOAT & SAILING MAG., Feb. 1987, at 104.

<sup>9</sup> Another problem for the trademark owner is the money lost to adverse product liability judgments. This is caused by the inability in many accidents, where the good is destroyed or severely damaged, to prove that a counterfeit good caused the harm in question, a fact which would cut off liability to the trademark owner. Chiles, *Anything Can Be Counterfeited—And These Days Almost Everything Is*, SMITHSONIAN, July, 1986 at 36.

<sup>10</sup> Trademark owners may spend well over a million dollars a year in investigative and legal fees fighting trademark counterfeiting. See, e.g., *Arrest Two For Selling Counterfeit Hair-Care Items*, PR NEWSWIRE, Feb. 26, 1986 (Nexis, PR News file) [hereinafter *Arrest*] (Nexxus company spent \$1.5 million in one year on such fees).

<sup>11</sup> A trademark owner may abandon his or her rights in the mark "when any course of conduct of the owner, including acts of omission . . . causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark." 15 U.S.C. § 1127(8)(2)(A)(2) (1988). An act of omission can include not suing counterfeiters. See Keisel, *Battling the Boom in Bogus Goods*, 71 A.B.A. J. 60, 62-63 (Mar. 1985). A delay in filing suit also exposes the trademark owner to the loss of a cause of action against a defendant through laches. Joint Statement, *supra* note 2, at H12078; see Chiles, *supra* note 9, at 36.

<sup>12</sup> Finn, *That's The \$60 Billion Question*, FORBES, Nov. 17, 1986, at 40 (estimated annual counterfeit sales at \$60 billion internationally); Crandall, *The Cost of Counterfeit Products*, CONSUMERS RES. MAG., May 1986, at 33 ("cost to U.S. companies is nearly \$20 billion annually in retail sales").

mated loss of 210,000 jobs annually to fake automobile parts alone.<sup>13</sup> It diminishes state and federal tax bases, and poses a potentially deadly safety hazard for the public. For example, the "[w]idespread counterfeiting and failures of . . . high-strength fasteners have been reported in building and construction sites, coal mines, helicopters, highway bridges and guard rails, nuclear and fossil fuel utilities, and commercial trucks and buses."<sup>14</sup> Counterfeit birth control pills,<sup>15</sup> hormones,<sup>16</sup> shampoo,<sup>17</sup> and eyewear,<sup>18</sup> and heart pumps<sup>19</sup> have created other well documented health risks. Counterfeit transistors were even discovered in parts destined for the space shuttle.<sup>20</sup>

Counterfeiters today are successful in part because they have no built-in research and development costs; they can undersell legitimate manufacturers.<sup>21</sup> They also can cut corners on quality, be-

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<sup>13</sup> SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATION, HOUSE COMMITTEE ON ENERGY AND COMMERCE, 98TH CONG., 2D SESS., UNFAIR FOREIGN TRADE PRACTICES: STEALING AMERICAN INTELLECTUAL PROPERTY: IMITATION IS NOT FLATTERY 46 (Comm. Print 98-v) (1984) [hereinafter SUBCOMMITTEE] (statistic provided by Linda Hoffman of the Automotive Parts and Accessories Association).

<sup>14</sup> SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS, HOUSE COMMITTEE ON ENERGY AND COMMERCE, 100TH CONG., 2D SESS., THE THREAT FROM SUBSTANDARD FASTENERS: IS AMERICA LOSING ITS GRIP? 3 (Comm. Print 100-Y) (1988); see also Isgro, *The Hidden Threat to Air Safety*, FORTUNE, April 13, 1987, at 81 ("Air safety experts believe the phony parts issue is potentially more serious among smaller upstart lines and in the privately owned plane and helicopter market, where maintenance may be more casual.").

<sup>15</sup> 1285 FOOD DRUG COSM. L. REP. (CCH) Para. 44,035 (July 3, 1987) [hereinafter FDA]; ("Fox Meyer Corp. is voluntarily recalling all Ovulen-21 packages bearing the lot numbers 441 and 489 because of counterfeits.").

<sup>16</sup> *Id.* at Para. 40,400 ("The F.D.A. has alerted athletes, coaches, and physicians that counterfeit human chorionic gonadotropin that is being distributed on the black market is nonsterile and pyrogenic."); see also *Fake Horse Hormones*, FDA CONSUMER, May 1988, at 36 ("Closer control of steroid sources and prescriptions has made Equipoise [a drug used legally to make horses stronger but also used illegally by body builders] harder to obtain, so suppliers of illegal steroids have begun selling their body-building customers counterfeit versions, complete with phony labels and lot numbers . . . [with] no active ingredients.").

<sup>17</sup> *Arrest*, *supra* note 10.

<sup>18</sup> *Bausch & Lomb Reports On Counterfeit Ray-Ban Seizure*, PR NEWswire, June 26, 1985 (Nexis, PR News file) ("Bogus sunglasses' lenses may not protect against harmful rays nor provide impact resistance.").

<sup>19</sup> SUBCOMMITTEE, *supra* note 13, at 38.

<sup>20</sup> Rakoff & Wolff, *Commercial Counterfeiting and the Proposed Trademark Counterfeiting Act*, 20 AM. CRIM. L. REV. 145, 153, n.62 (1982) (citing Fenby, *Boom in Brand Name Fakes*, READER'S DIGEST (English ed.), Sept. 1981, at 135).

<sup>21</sup> James Enyart of Monsanto captured the research and development edge that counterfeiters possess, with a note of frustration: "You spend millions to develop a herbicide and then you've got to market it. You do all that and then some guy in Taiwan with some pots and pans flanged together can undercut the hell out of your price." Finn, *supra* note 12, at 40.

cause they are not interested in repeat customers.<sup>22</sup> The majority of counterfeit goods finally reach consumers through street vendors, flea markets, and discount stores.<sup>23</sup> Yet they can damage consumers indirectly through incidents like plane crashes or auto accidents.

This Comment evaluates the effectiveness of the criminal penalties for trademark counterfeiting invoked in the Trademark Counterfeiting Act of 1984 through an analysis of caselaw and current literature. This Comment suggests that such penalties are potentially the most powerful deterrent against trademark counterfeiting in the United States, but to date inadequate enforcement has undercut their effectiveness. It suggests that the problem of trademark counterfeiting is significant enough to warrant a greater role for federal law enforcement authorities in the investigation and prosecution of trademark counterfeiters. Part II of this Comment discusses the history of trademark counterfeiting and criminal sanctions, as well as the Act's criminal provisions and the judicial response to them. Part III discusses the current alternatives to the Act, including international efforts pursued by the United States, Customs enforcement, state anti-counterfeiting criminal laws, and the civil remedies under the Act. Finally, Part IV discusses the need for increased criminal prosecutions under the Act.

## II. TRADEMARK COUNTERFEITING AND CRIMINAL LAWS TO COMBAT THE PROBLEM

### A. THE HISTORY OF TRADEMARK COUNTERFEITING

Trademarks have been in use for centuries, and counterfeiting of trademarks has always been a problem:

The Greeks marked their works of art with the name of the sculptor. Greek pottery from the earliest times has borne inscriptions, usually the name of the maker and on decorated pieces the name of the decorator. The cup handles from the Ceramicus of Athens beside the

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<sup>22</sup> Crandall, *supra* note 12, at 33 ("Because they are not out for repeat business, they cut corners on quality, safety and cleanliness to produce their fakes as cheaply as possible.").

<sup>23</sup> *Is It Real? Counterfeit Goods Are Big Business—How to Avoid Getting Ripped Off*, GLAMOUR, May 1987, at 210. According to James L. Bikoff, a Washington, D.C., attorney representing trademark owners:

It isn't just street vendors who sell counterfeits. Discount stores may knowingly or unknowingly stock their shelves with bogus goods. In addition to legitimately obtained close-out merchandise, they may carry counterfeit designer brands made by renegade contractors who at one time legitimately produced goods for a company, then kept patterns and went into business for themselves. Even reputable stores are not immune. Rip-off artists return the fake counterfeit of a genuine product for the refund.

*Id.*

maker's name often bore real trade marks as figures of Mercury staffs, oil jugs, bees, lions' heads, and the like. Greek inscriptions have been found on Etruscan vases dated from 800 to 400 B.C. This has suggested the question whether these vases were truly a Greek product, or whether the Etruscan potter had copied the trade mark of some celebrated Greek maker, as the Roman engravers and sculptors were in the habit of doing in later times.<sup>24</sup>

Medieval artisans used trademarks extensively to identify their goods.<sup>25</sup> Counterfeiters in medieval times copied many items, particularly the trademarks of publishers on the covers of books.<sup>26</sup> After the Revolutionary War, trademark counterfeiting was a problem in the United States. For instance, in 1791 Secretary of State Thomas Jefferson was concerned enough about counterfeiting to write a letter to Congress calling for legislation invoking penal sanctions for trademark counterfeiting.<sup>27</sup>

Edward Rogers, an original drafter of the Lanham Act,<sup>28</sup> which still governs the vast majority of trademark law today, suggested at the beginning of this century that the use of trademarks throughout history is a reflection of market conditions. For instance, when goods are produced in a localized setting, quality assurances are made through the interaction of consumer and producer. However, when goods are mass produced and distributed on a wider basis, beyond the localized setting, the use of marks becomes necessary as a source indicator to assure the quality of the goods purchased.<sup>29</sup>

Consequently, at the beginning of the twentieth century, when commercial activities had significantly expanded over the past several decades, the use of trademarks had also increased "as either the cause or the effect of modern advertising."<sup>30</sup> People began to rely more and more on trademarks as a source indicator and an assurance of quality. Trademark counterfeiting consequently became a potentially more serious problem as there were more trademarks to counterfeit and more consumers who were vulnerable to such activity. Increased demand for certain trademarks only served to exacerbate the vulnerability of consumers. For example, during

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<sup>24</sup> Rogers, *Some Historical Matter Concerning Trademarks*, 9 MICH. L. REV. 29, 30 (1910) (citations omitted). For more historical information on trademark counterfeiting, see Pattishall, *The Constitutional Foundations of American Trademark Law*, 78 TRADEMARK REP. 456, 458 (1988) (citing Greenberg, *The Ancient Lineage of Trade-Marks*, 33 J. PAT. OFF. Soc. 876 (1951); Daniels, *The History of the Trade-Mark*, 7 TRADEMARK BULL. 239 (1911)).

<sup>25</sup> Rogers, *supra* note 24, at 32.

<sup>26</sup> *Id.* at 35.

<sup>27</sup> *Id.* at 41.

<sup>28</sup> The Lanham Act of July 5, 1946, Ch. 540, § 46 (a), 60 Stat. 444.

<sup>29</sup> Rogers, *supra* note 24, at 39-40.

<sup>30</sup> *Id.* at 43.

Prohibition, when there were severe restrictions on alcohol supply but a steady demand for certain high quality spirits, a fake alcohol industry thrived and eventually led to the paralyzation of the hands and feet of 15,000 drinkers in 1930 alone.<sup>31</sup> As the economy grew, counterfeiting affected many other products. In the 1930s there were reports of fake aspirin, ginger ale, razors, auto parts, cigars, and deodorant, while in the 1950s fake polio vaccines and in the 1960s phony helicopter parts highlighted the news.<sup>32</sup> By the mid-1970s, a boom in counterfeiting occurred as consumers took a great interest in designer marks and labels.<sup>33</sup> At the beginning of the 1980s, the demand for marks of all types increased, and the counterfeiters responded in kind.<sup>34</sup>

#### B. THE HISTORY OF CRIMINAL STATUTES AGAINST TRADEMARK COUNTERFEITING

Some form of law or custom has been invoked to stop trademark counterfeiting probably since Roman times.<sup>35</sup> The first recorded criminal anti-counterfeiting laws arose in medieval times:

As early as the thirteenth century, the copying of valuable marks became so common and so injurious that infringement was made a misdemeanor and in some cases even a felony and was punished in the barbarous manner characteristic of the times. The Elector of Palantine in the Fourteenth Century [sic] issued an edict which, after reciting that the sale of spurious wine was the most outrageous form of deceit, punished by hanging any innkeeper who sold ordinary wine as Rudesheimer.<sup>36</sup>

In modern times, the United States has been slow in protecting intellectual property rights.<sup>37</sup> Congress enacted the first federal statute concerning trademarks in 1870.<sup>38</sup> Congress imposed<sup>39</sup> the first

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<sup>31</sup> Chiles, *supra* note 9, at 36.

<sup>32</sup> *Id.*

<sup>33</sup> Higgins & Rubin, *Counterfeit Goods*, 79 J. L. & ECON. 211 (1986) (noting the popularity of such labels as Izod and Calvin Klein and the "snob" appeal, analyzed in economic terms, that goes into labels when they are treated as status symbols).

<sup>34</sup> Rakoff & Wolff, *supra* note 20, at 150 (Counterfeiting markets shadow the success of a legitimate mark, and sometimes outstrip the growth in production of the legitimate mark as the production of a counterfeit is more profitable.).

<sup>35</sup> Although Roman Laws criminalizing counterfeiting have not been found, it is thought that some did exist. Rogers, *supra* note 25, at 32.

<sup>36</sup> *Id.* at 33 (citation omitted).

<sup>37</sup> The first reported case involving a trademark in the United States was in 1837. *Thomson v. Winchester*, 19 Mass. (214 Pick.) (1837). See generally Comment, *Trademarks—Their Early History*, 59 TRADEMARK REP. 551, 565-69 (1969) (discussing early trademark cases in the United States).

<sup>38</sup> Act of July 8, 1870, ch. 230, §§ 77-84, 16 Stat. 198 (Act allowed for the registration of trademarks); Pattishall, *Two Hundred Years of American Trademark Law*, 68 TRADE-

criminal sanctions against trademark counterfeiting in 1876 by amending the 1870 Act with the following provision:

[E]very person who shall with intent to defraud, deal in or sell, or keep or offer for sale, or cause or procure the sale of, any goods of substantially the same descriptive properties as those referred to in the registration of any trade-mark, pursuant to the statutes of the United States, to which, or to the package in which the same are put up, is fraudulently affixed said trade mark [sic], or any colorable imitation thereof, calculated to deceive the public, knowing the same to be counterfeit or not the genuine goods referred to in said registration, shall, on conviction thereof, be punished by a fine not exceeding one thousand dollars, or imprisonment not more than two years, or both such fine and imprisonment.<sup>40</sup>

The criminal provisions foresaw the effectiveness of combining monetary fines and prison sentences. Three years later, however, the Supreme Court voided the criminal provisions of the 1876 Amendment in the *Trade-Mark Cases*.<sup>41</sup>

The *Trade-Mark Cases* consolidated the cases of three defendants indicted for the possession with the intent to defraud of counterfeit trademarks for champagne and whiskey.<sup>42</sup> The indictments fell under sections four and five of the 1876 Act criminalizing trademark counterfeiting.<sup>43</sup> The issue of the case concerned the constitutionality of the 1870 Act.<sup>44</sup> The prosecution urged that the Act was valid as an exercise of congressional power to regulate under the commerce clause of the Constitution.<sup>45</sup> The Court, however, ruled that the 1870 Act was unconstitutional on the grounds that Congress had erroneously based the authority of the Act on the Consti-

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MARK REP. 121, 129-30 (1978) (The 1870 Act provided for damages and injunctive relief as remedies for counterfeiting any registered mark.).

<sup>39</sup> Congress enacted the statutes to provide reciprocal protection for intellectual property to countries with whom the U.S. had treaties, and to protect the manufacturers and merchants who had lobbied for the passage of the measures. Derenberg, *The Problem of Trademark Dilution and the Antidilution Statutes*, 44 CALIF. L. REV. 439, 443 (1956).

<sup>40</sup> Act of August 14, 1876, ch. 278, § 1, 19 Stat. 141.

<sup>41</sup> 100 U.S. 82 (1879).

<sup>42</sup> *Id.* at 82-83.

<sup>43</sup> Sections 4 and 5 of the Act of 1876 are as follows:

Sect. 4. That any person or persons who shall, with intent to defraud any person or persons, knowingly and wilfully cast, engrave, or manufacture . . . [a] trademark, registered pursuant to the statutes of the United States, shall, upon conviction thereof, be punished . . . . Sect. 5. That any person or persons who shall, with intent to defraud any person or persons, knowingly and wilfully . . . counterfeit, or have in his, her, or their possession, or buy, sell, offer for sale, or deal in . . . [a] trademark, registered pursuant to the Statutes of the United States, shall, upon conviction thereof, be punished . . . .

*Id.* at 83-84.

<sup>44</sup> *Trade-Mark Cases*, 100 U.S. at 84-85.

<sup>45</sup> *Id.* at 85.



tution's patent and copyright clause.<sup>46</sup> Apparently, the drafters of the 1870 Act had confused trademark and copyright law, "for it was entitled ingenuously, 'An Act To Revise, Consolidate, and Amend The Statutes Relating To Patents And Copyrights.'"<sup>47</sup> Although the Court set aside the commerce clause argument,<sup>48</sup> the Court commented that the Act would not be found to be a valid exercise of the Commerce Clause if it attempted to regulate commerce between citizens of the same state.<sup>49</sup> The Court held that the criminal provisions were also invalid because the 1876 Act imposing criminal sanctions rested on the validity of the 1870 Act.<sup>50</sup>

Of the several trademark acts passed by Congress after the 1876 Act, including the Act of 1881,<sup>51</sup> the Act of 1905,<sup>52</sup> and lastly the Lanham Act of 1946,<sup>53</sup> none contained criminal provisions. These Acts lacked criminal provisions conceivably because the *Trade-Mark Cases* involved criminal indictments.<sup>54</sup> Because of this tie to criminal sanctions, Congress may have developed something akin to a psychological reticence to the idea of equating criminal sanctions with trademark counterfeiting.<sup>55</sup> In other words, once burned by a famous case, Congress was wary about venturing again into the realm of criminal penalties for trademark counterfeiting.

#### C. THE CRIMINAL SANCTIONS IMPOSED BY THE TRADEMARK COUNTERFEITING ACT OF 1984

Congress finally imposed criminal sanctions for trademark counterfeiting with the Trademark Counterfeiting Act of 1984.<sup>56</sup> The criminal sanctions of the Act on their face are an impressive deterrent.<sup>57</sup> The criminal provisions in the Act impose maximum penalties of five years imprisonment or a \$250,000 fine or both for

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<sup>46</sup> *Id.* at 94.

<sup>47</sup> Pattishall, *supra* note 24, at 461.

<sup>48</sup> *Trade-Mark Cases*, 100 U.S. at 95.

<sup>49</sup> *Id.* at 96-97.

<sup>50</sup> *Id.* at 99.

<sup>51</sup> Act of March 3, 1881, ch. 138, 21 Stat. 502 (1881) (revived the registration portion of the Act of 1870 but limited its application to commerce with foreign nations and not interstate commerce).

<sup>52</sup> Act of February 20, 1905, ch. 592, 33 Stat. 724 (reinstated federal registration for interstate commerce).

<sup>53</sup> The Lanham Act of July 5, 1946, Ch. 540, § 46(a), 60 Stat. 444 (codified as amended at 15 U.S.C. §§ 1051-1127 (1988)); *See* J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 5.4 (2d ed. 1984).

<sup>54</sup> Derenberg, *supra* note 39, at 443.

<sup>55</sup> *Id.* at 444.

<sup>56</sup> Pub. L. No. 98-473, 98 Stat. 2178 (criminal sanctions codified in 18 U.S.C. § 2320 (1988)).

<sup>57</sup> 18 U.S.C. § 2320.

an individual first offender.<sup>58</sup> A repeat offender may be sentenced to fifteen years in prison or a \$1,000,000 fine or both.<sup>59</sup> Corporations may be fined \$1,000,000 for the first offense, and \$5,000,000 for a second offense.<sup>60</sup>

The sanctions apply to "[w]homever intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services."<sup>61</sup> The first element, trafficking in counterfeit goods, is defined as using, or intending to use, a mark in commerce "as consideration for anything of value."<sup>62</sup> Thus, the purchase of counterfeit items for personal use is not penalized under the Act.<sup>63</sup>

The prosecution must also demonstrate that the mark in question is indeed counterfeit. The Act defines a counterfeit mark as:

- (A) a spurious mark-
  - (i) that is used in connection with trafficking in goods or services;
  - (ii) that is identical with, or substantially indistinguishable from, a mark registered for those goods or services on the principal register in the United States Patent and Trademark Office and in use, whether or not the defendant knew such mark was so registered; and
  - (iii) the use of which is likely to cause confusion, to cause mistake, or to deceive. . . .<sup>64</sup>

The first subpart of the definition requires showing that the mark is used "in connection with [the] trafficking of goods." Trafficking is usually established simply by purchasing a counterfeit good from the defendant prior to his or her arrest.<sup>65</sup>

The second subpart of the counterfeit definition includes the requirement that the mark in question be "substantially indistinguishable" from the genuine mark. This definition does not require that the mark be exactly identical to the genuine mark registered with the Patent and Trademark Office.<sup>66</sup> The term "substantially indistinguishable" is not defined by the Act; rather, it is determined

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<sup>58</sup> 18 U.S.C. § 2320(a).

<sup>59</sup> *Id.*

<sup>60</sup> *Id.*

<sup>61</sup> *Id.* The Act applies to trafficking in both goods and services, but the overwhelming majority of cases will involve strictly counterfeit goods. Olson, *An Analysis of the Trademark Counterfeiting Act of 1984*, an Outline of a Speech, reprinted in TRADEMARK & COPYRIGHT INFRINGEMENT 17 (1985).

<sup>62</sup> 18 U.S.C. § 2320(d)(2).

<sup>63</sup> Joint Statement, *supra* note 2, at H12078.

<sup>64</sup> 18 U.S.C. § 2320(d). The Act also protects Olympic symbols. 18 U.S.C. § 2320(d)(1)(B).

<sup>65</sup> See *United States v. Torkington*, 812 F.2d 1347, 1349 (11th Cir. 1987).

<sup>66</sup> Joint Statement, *supra* note 2, at H12078.

on a case-by-case basis,<sup>67</sup> and a prosecutor can establish it through the use of expert testimony.<sup>68</sup>

The final subpart of the definition of a counterfeit mark requires a showing that the mark in question is "likely to cause confusion, to cause mistake, or to deceive." This standard incorporates the wording of the Lanham Act "to ensure that no conduct will be criminalized by the Act that does not constitute trademark infringement under the Lanham Act."<sup>69</sup> Thus, the standards established by civil cases for determining confusion under the Lanham Act should be used to determine the standards for confusion in criminal cases under the Trademark Counterfeiting Act.<sup>70</sup> In *United States v. Torkington*,<sup>71</sup> for example, the Eleventh Circuit followed the Lanham Act cases in recognizing a cause of action based on the possibility of post-sale confusion. In so holding, the Eleventh Circuit disposed of the district court's assertion that the price disparity between the genuine and counterfeit goods in question, which in *Torkington* were counterfeit Rolex watches, eliminated any actionable confusion.<sup>72</sup> Such price disparity was relevant only to the direct sale context, and not to the post-sale context.<sup>73</sup>

After establishing the three subparts of the definition of a counterfeit mark, the prosecution must establish two mental elements under the Act: intentional trafficking and knowing use of a counterfeit mark.<sup>74</sup> The government can prove the intentional trafficking element by showing that defendant sold or obtained the goods in question "'on purpose'"<sup>75</sup> through, for instance, a purchase of counterfeit goods from the defendant prior to his or her arrest.<sup>76</sup> The knowledge element of the use of a counterfeit mark is a little more difficult to prove, as the prosecution must show that the defendant had "an awareness or a firm belief" that the mark was coun-

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<sup>67</sup> *Id.*

<sup>68</sup> See *United States v. M. Laufner Enters.*, 817 F.2d 759, n.2 (11th Cir. 1987) (" 'documentary evidence and expert testimony establishing that the trademarks and watch designs were nearly identical to the registered products sufficient to sustain jury verdict' "), quoted in *United States v. McEvoy*, 820 F.2d 1170, 1172 (11th Cir. 1987)).

<sup>69</sup> Joint Statement, *supra* note 2, at H12078.

<sup>70</sup> *Torkington*, 812 F.2d at 1351 n.4.

<sup>71</sup> *Id.* at 1352.

<sup>72</sup> *Id.* at 1350.

<sup>73</sup> *Id.* For instance, the price of a counterfeit watch is usually much lower than the normal price for a genuine. This price disparity indicates to the direct purchaser that the watch is a counterfeit. A consumer who merely sees a person wearing a counterfeit watch, however, may not realize that it is a fake because that person does not have a similar price indicator.

<sup>74</sup> 18 U.S.C. § 2320(a) (1988).

<sup>75</sup> Joint Statement, *supra* note 2, at H12076.

<sup>76</sup> *Torkington*, 812 F.2d at 1349.

terfeit.<sup>77</sup> The prosecution can also meet this proof, however, by showing that the defendant was “‘wilfully blind’” to the counterfeit nature of the mark.<sup>78</sup>

Certain goods are exempt from the Act. For instance, gray market goods<sup>79</sup> are exempt because current Treasury Department regulations allow for their importation.<sup>80</sup> Also, if a licensee manufactures too much of a good under a valid trademark licensing agreement, those “overruns” are not considered counterfeit goods because of the owner’s initial approval.<sup>81</sup> Congress’ rationale for the overrun exception is as follows: “‘The trademark owner has put the wheels in motion for the manufacturer to make the overruns, and has the means to protect himself or herself. . . . The contractual and other civil remedies already existing make it inappropriate to criminalize such practices.’”<sup>82</sup> The overrun exception does not apply, however, if the licensee uses the mark for goods not covered by the licensing agreement.<sup>83</sup> Trade dress<sup>84</sup> is also not covered by the Act unless it is registered as a trademark.

Finally, defendants have the same affirmative defenses available to them in a criminal counterfeiting case as they do in a civil one.<sup>85</sup> For instance, the defendant has the burden of proving the affirmative defenses of laches and anti-trust violations by a preponderance of the evidence.<sup>86</sup>

Sentencing under the Act is discretionary within the scope of the United States Sentencing Guidelines.<sup>87</sup> The legislative history stresses that an appropriate deterrent would include a combination of a prison term and fines.<sup>88</sup> The drafters of the Act recognized, however, that the imposition of the maximum fines would be unlikely except for the most egregious forms of counterfeiting.<sup>89</sup>

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<sup>77</sup> Joint Statement, *supra* note 2, at H12076.

<sup>78</sup> *Id.* at H12077.

<sup>79</sup> Gray market goods are defined as “trademarked goods legitimately manufactured and sold overseas and then imported into the United States outside the trademark owner’s desired distribution channels.” Joint Statement, *supra* note 2, H12079.

<sup>80</sup> *Id.*; see *K-Mart v. Cartier*, 485 U.S. 191 (1988) (reaffirming the legality of Treasury regulations that permit the entry of gray market goods into the United States).

<sup>81</sup> Joint Statement, *supra* note 2, at H12079 (citation omitted).

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> Trade dress “is the color, shape or design of a product or its packaging.” *Id.*

<sup>85</sup> *Id.* at H12078.

<sup>86</sup> *Id.*

<sup>87</sup> 18 U.S.C. § 3553 (1988).

<sup>88</sup> Joint Statement, *supra* note 2, at H12077.

<sup>89</sup> *Id.* “In a case in which a defendant trafficked in counterfeits that pose a grave danger to the public health and safety, these maximum penalties may be fully warranted.” *Id.* For instance, in *United States v. Hon*, No. 89 Cr. 0052 (S.D.N.Y. May 31,

## D. JUDICIAL RESPONSE TO THE ACT

The Supreme Court of the United States has not ruled on the validity of the Act, but the Second,<sup>90</sup> Fifth,<sup>91</sup> Eighth,<sup>92</sup> and Eleventh<sup>93</sup> Circuits have all consistently upheld criminal convictions under its provisions against a variety of challenges.<sup>94</sup> The reported cases interpreting the Act are few in number and focus almost exclusively on counterfeit watches, in particular those of Rolex U.S.A.<sup>95</sup>

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1989) (LEXIS, Genfed library, Dist. file), the United States Sentencing Guidelines recommended a sentence of 8-14 months imprisonment for trafficking in over \$50,000 worth of counterfeit watches. The defendant received a sentence of 36-months probation and a \$6,000 fine; the court stressed that one of the mitigating factors in this case was that the defendant posed no danger to society. *Id.*

In contrast, in *United States v. Shinyder*, No. JH 86-0134 (S.D.N.Y. May 31, 1989), the defendant received a much stiffer sentence of two concurrent five year prison sentences for selling counterfeit shampoo and conditioner. *Id.* This counterfeit shampoo was sold across the country and "contain[ed] a high amount of bacteria in some cases and could cause eye infections and sores on the scalp." Horwitz, *FBI Sting Nets Shampoo Fraud Suspect*, WASHINGTON POST, Feb. 27, 1986, at E1, col 5, quoted in Bikoff, *Use of the Criminal Law to Combat Commercial Counterfeiting and Piracy in the United States* (1988) (unpublished manuscript). The threat to the public from such shampoo undoubtedly led to the stiff sentence.

<sup>90</sup> *United States v. Marziotto*, 849 F.2d 1468, 7 U.S.P.Q.2d 1507 (2d Cir. 1988) (defendant's conviction for trafficking in counterfeit Met's baseball souvenirs upheld against several asserted points of error dealing with the facts of the case, with a note by the court that this opinion is limited to the facts of the case and should not be cited as precedent); *Hon*, No. 89 Cr. 0052 (S.D.N.Y. May 31, 1989) (defendant convicted under the Act of trafficking in counterfeit watches).

<sup>91</sup> *United States v. Baker*, 807 F.2d 427, 428 (5th Cir. 1986) (conviction under the Act upheld for trafficking in counterfeit Rolex watches against a mistake of law defense); *United States v. Yamin*, 868 F.2d 130, 133 (5th Cir.), *cert. denied*, *Firouz v. United States*, 109 S. Ct. 3258 (1989) (defendants' convictions for trafficking in counterfeit Rolex, Piaget, Cartier, and Gucci watches upheld against a challenge to the possibility of post-sale confusion).

<sup>92</sup> *United States v. Gantos*, 817 F.2d 41, 43 (8th Cir.), *cert. denied*, 484 U.S. 860 (1987) (conviction under the Act upheld for selling counterfeit Rolex watches against defendant's assertion that the prosecution must prove a specific intent to violate the statute and other asserted points of error).

<sup>93</sup> *United States v. McEvoy*, 820 F.2d at 1170, 1172 (11th Cir. 1987) (defendant's conviction under the Act of trafficking in counterfeit Rolex, Piaget, and Gucci watches upheld against the assertion that the Act is unconstitutionally vague and that it unconstitutionally shifts the burden of proof onto the defendants); *United States v. M. Laufer Enters.*, 817 F.2d 759 (11th Cir. 1987) (conviction for trafficking in counterfeit watches upheld); *United States v. Torkington*, 812 F.2d 1347, 1349 (11th Cir. 1987) (court of appeals reversed district court decision dismissing both counts of the indictment against the defendant for trafficking in counterfeit Rolex watches on the ground that replica Rolex watches were not "counterfeit" under the Act); *United States v. Gonzales*, 630 F. Supp. 894 (S.D. Fla. 1986) (defendant convicted of selling counterfeit Rolex watches).

<sup>94</sup> See *supra* notes 90-93.

<sup>95</sup> See also *United States v. Almany*, 872 F.2d 924, 925 (9th Cir. 1989) (dismissal of an appeal from a district court's order denying a request to shift the proceedings to the Patent & Trademark Office and to discover certain grand jury transcripts in a case involving a defendant indicted with trafficking in counterfeit Rolex, Piaget, Cartier, and

Of the ten reported cases only one deals with another counterfeit good, Mets' baseball souvenirs.<sup>96</sup> One unreported case<sup>97</sup> deals with a dangerous counterfeit good and the FBI's role in a sting operation to catch the defendant by posing as a potential buyer.<sup>98</sup>

The precise number of unreported cases is difficult to determine. The arrest or prosecution of counterfeiters of potentially dangerous goods is often publicized in the popular press.<sup>99</sup> If the number of published reports in the popular press is an accurate indicator, there are not many unreported cases of dangerous goods under the Act. Even if there are many more unreported counterfeiting cases, the lack of publicity lessens the impact of their deterrent value. To date, the criminal sanctions of the Act have not been a significant deterrent in the marketplace.<sup>100</sup> More criminal prosecutions are needed to increase the Act's deterrent value,<sup>101</sup> especially against the production of dangerous goods.

### III. ALTERNATIVES TO THE CRIMINAL PROVISIONS OF THE TRADEMARK COUNTERFEITING ACT OF 1984

#### A. FEDERAL CRIMINAL STATUTES

Federal criminal fraud statutes<sup>102</sup> with applications to trade-

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Gucci watches); *United States v. Infurnari*, 647 F. Supp. 57 (W.D.N.Y. 1986) (case dealing with a pre-trial order of a defendant accused of selling counterfeit Piaget and Rolex watches).

<sup>96</sup> *United States v. Marziotto*, 849 F.2d 1468, 7 U.S.P.Q.2d 1507 (2d Cir. 1988).

<sup>97</sup> *United States v. Shinyder*, No. JH 86-0134 (D. Md. July 1, 1986); see Horwitz, *supra* note 89, and accompanying text.

<sup>98</sup> *Id.*; see also *Arrest*, *supra* note 10.

<sup>99</sup> For examples of the press reports surrounding the counterfeit Nexxus shampoo case, *Shinyder*, No. JH 86-0134 (D. Md. July 1, 1986), see Horwitz, *supra* note 89, and *Arrest*, *supra* note 10.

<sup>100</sup> In reference to the Act, two commentators have noted that "at least to date, it has had very little effect on activities in the marketplace." Springut & Tucker, *Battling the Counterfeiting Contagion: The Nuts and Bolts of Fighting Counterfeiters*, 14 AM. INTELL. PROP. L.A. Q.J. 263, 265 (1986).

<sup>101</sup> James Bikoff, an attorney in Washington, D.C., who represents trademark owners, stated in 1988 that "there remains a need for criminal prosecutions of commercial counterfeiters to create the necessary deterrent to commercial counterfeiting." Bikoff, *supra* note 89.

<sup>102</sup> Before the Trademark Counterfeiting Act of 1984 and even today, federal authorities have had the right to prosecute trademark counterfeiters for a variety of federal crimes including: mail fraud, 18 U.S.C. § 1341 (1988) (maximum penalty of a \$1,000 fine or five years imprisonment or both); wire fraud, 18 U.S.C. § 1343 (maximum penalty of a \$1,000 fine or five years imprisonment or both); defrauding the United States, 18 U.S.C. § 1002 (maximum penalty of \$10,000 or five years imprisonment or both); transportation of stolen goods worth over \$5,000, 18 U.S.C. § 2314 (maximum penalty of \$10,000 fine or 10 years imprisonment or both); and the receipt of stolen goods worth over \$5,000, 18 U.S.C. § 2315 (maximum penalty of \$10,000 fine or 10 years imprisonment or both).

mark counterfeiting have been in existence for 118 years.<sup>103</sup> They have received only token enforcement from the United States Attorney's Office, however, arguably because the fraud statutes are vague and do not specifically address counterfeiting, and because of a lack of resources.<sup>104</sup> The Racketeer Influenced and Corrupt Organizations Act ("RICO") also was touted as a means of curtailing the extensive racketeering in trademark counterfeiting prior to the Act, and it remains a viable option today.<sup>105</sup> The government has never brought a RICO count in a criminal case for trademark fraud, however,<sup>106</sup> and there is only one reported case of a RICO count attempted in a civil trademark counterfeiting case.<sup>107</sup> Commentators have suggested that Justice Department guidelines hamper the enforcement of criminal RICO.<sup>108</sup>

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<sup>103</sup> Rakoff & Wolff, *supra* note 20, at 170. "Since 1872, federal prosecutors have possessed, in the mail fraud statute, something akin to a general fraud statute . . ." *Id.*

<sup>104</sup> *Id.* at 170-76. "In any given year, a typical United States Attorney's Office, having resources to prosecute, say, twenty 'miscellaneous' fraud cases under the mail and wire fraud statutes, would typically choose to prosecute a few cases in each of several new areas that had not previously been much addressed." *Id.* at 174-75. See also *Trademark Counterfeiting Act of 1984: Hearings on H.R. 2447 Before the Subcomm. on Crime of the House Committee on the Judiciary*, 98th Cong., 1st Sess. 61 (1983) (testimony of Timothy J. Finn, Associate Deputy Attorney General, U.S. Department of Justice) (significant jurisdictional burdens of proof and low criminal fines inhibit prosecutions under the federal anti-fraud provisions).

<sup>105</sup> Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §§ 1961-68 (1988) ("RICO"). Maximum criminal penalties under RICO include a \$25,000 fine or twice the gross profits of the illegal enterprise or 20 years imprisonment or both, and a forfeiture of assets involved in the criminal activity. 18 U.S.C. § 1063.

<sup>106</sup> *BNA Trademark Conference Addresses Enforcement, Change*, 35 PAT. TRADEMARK & COPYRIGHT J. (BNA) 462 (March 31, 1988) [hereinafter *Conference*] (Lawrence Lippe, a Justice Department official, acknowledges the possibility of a RICO criminal count for trademark counterfeiting, but claims that the proper fact scenario has not arisen for such an action).

<sup>107</sup> *Ford Motor Co. v. B & H Supply*, 646 F. Supp. 975 (D. Minn. 1986), *later proceeding*, 2 U.S.P.Q.2d 1870 (1987). In a case involving the use of counterfeit Ford trademarks on auto parts, *id.* at 980, the court held for Ford generally, but not on the RICO claim. *Id.* at 1001. It found that the plaintiff did not establish that the defendant's marketing, sales, and distribution of counterfeit parts and spurious packaging constituted racketeering activity or a pattern of racketeering, and thus did not establish two essential elements of its RICO claim. *Id.* Ford met the other elements of the RICO claim, namely "the existence of an enterprise and the defendant's participation in the conduct of that enterprise . . ." *Id.* at 999; see also *Processed Apples, Inc. v. Food Complex, Inc.*, No. 82 Civ. 1959 (E.D.N.Y. Aug. 1982) (successful RICO and Lanham Act claims in an unreported opinion), *cited in* Rakoff & Wolff, *supra* note 20, at 174 n.225. Commentators suggest that RICO's broad scope has led courts to caution against its overuse in civil cases. *Id.* Civil RICO allows for the award of treble damages and attorney's fees. 18 U.S.C. § 1964.

<sup>108</sup> Rakoff & Wolff, *supra* note 20, at 174 n.225. These guidelines will become more stringent as the Justice Department "recently disclosed details of policy changes made this summer that tighten the rules for prosecuting criminal cases under the Racketeer

Even statutes enacted to deal with trademark counterfeiting in a specific area, such as the Federal Food, Drug and Cosmetic Act, have suffered from a lack of enforcement.<sup>109</sup> Thus, "neither the mail and wire fraud statutes nor any other existing federal criminal statutes provide an adequate weapon for combatting commercial counterfeiting."<sup>110</sup> The Trademark Counterfeiting Act of 1984<sup>111</sup> solved the specificity problem in previous federal statutes, as it only addresses trademark counterfeiting. Yet the problem of inadequate enforcement remains, and the Act's effectiveness as a deterrent may ultimately suffer the fate of earlier federal statutes.

B. MULTINATIONAL EFFORTS BY THE UNITED STATES TO COPE WITH AN INTERNATIONAL PROBLEM

The problem of trademark counterfeiting is international in scope.<sup>112</sup> The point of origin of most counterfeit goods entering the United States is usually in developing countries where counterfeiting is practically encouraged by lax or non-existent anti-counterfeiting laws and where sometimes "the culture attaches no particular onus to such action."<sup>113</sup> A United States House Subcommittee named the worst counterfeiting offenders: Taiwan, South Korea, Hong Kong, Singapore, Thailand, the Philippines, Indonesia, Brazil, Colombia, Mexico, and Nigeria.<sup>114</sup> For some of these developing countries, counterfeiting "may have become a de facto national industrial development strategy."<sup>115</sup> Paula Stern, then Chairperson

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Influenced and Corrupt Organizations Act." *Safeguarding the Use of RICO*, CHICAGO TRIBUNE, Nov. 4, 1989, (editorial page), at 12, col 1.

<sup>109</sup> 21 U.S.C. § 333(a) (1988) (penalties of up to a \$1,000 fine or one year in prison or both for a first offense); 21 U.S.C. § 333(b) (penalties of up to \$10,000 or three years imprisonment or both). There has been only one reported criminal conviction under the Act in the last 20 years. *See* United States v. Jamieson-McKames Pharmaceuticals, Inc., 651 F.2d 532, 551 (8th Cir. 1979), *cert. denied*, 455 U.S. 1016 (1982) (defendants' convictions upheld for seven year prison sentences and fines for multiple violations of the Act, including counterfeiting drugs). In the last few years, the FDA has conducted numerous civil seizures of counterfeit Naprosyn and birth control pills. *See* FDA, *supra* note 15, at Paras. 37,034, 37,032, 37,133, 37,216, & 37,019.

<sup>110</sup> Rakoff & Wolff, *supra* note 20, at 176; Keisel, *supra* note 11, at 63.

<sup>111</sup> Pub. L. No. 98-473, 98 Stat. 2178 (criminal sanctions codified in 18 U.S.C. § 2320 (1988)).

<sup>112</sup> Estimated amount of annual worldwide sales in counterfeit goods ranges as high as \$60 billion dollars. Finn, *supra* note 12, at 40. Sixty-two percent of the goods produced abroad are sold in the United States according to Washington, D.C., attorney James Bikoff. *Conference*, *supra* note 106, at 462.

<sup>113</sup> P. Stern, Remarks at the National Conference on Counterfeiting, Foreign Product Counterfeiting (June 27, 1985) (available in LI VITAL SPEECHES OF THE DAY, No. 22, at 675).

<sup>114</sup> SUBCOMMITTEE, *supra* note 13, at 4.

<sup>115</sup> P. Stern, *supra* note 113, at 675.



of the United States International Trade Commission, suggested that a "product cycle" occurs where counterfeiters in developing countries begin in counterfeiting, and then evolve into legitimate operations and begin to manufacture their own trademarks, ironically incurring their own counterfeiting problems.<sup>116</sup> Counterfeits produced from economically developed countries remain a problem as well.<sup>117</sup>

To underscore its desire to eradicate international counterfeiting, the United States has codified its desire to negotiate with foreign governments over the enactment and enforcement of trademark laws within their countries.<sup>118</sup> To stem the tide of counterfeit goods entering the country, the United States government has taken steps to work within the international framework. The first step in international efforts was joining the Paris Convention for the Protection of Industrial Property ("Paris Convention").<sup>119</sup> The ninety-nine member Paris Convention has provided a foundation for minimal protection against trademark counterfeiting<sup>120</sup> through provisions which prohibit the use, registration, and importation of confusing trademarks, and sanction their seizure and forfeiture where allowed by national law.<sup>121</sup> The Paris Convention does not mandate that a signatory country follow specific guidelines; it merely requires that the country grant the same trademark protection to other signatory members as it does to its own nationals,<sup>122</sup> a standard that provides little relief to trademark owners in countries with few anti-counterfeiting laws. Thus, the United States must look to other international sources to protect trademark owners and consumers from counterfeiting.

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<sup>116</sup> *Id.* Paula Stern states:

Producers in the developing countries counterfeit established trademarks to get a foothold in the market, since demand for certain trademarked items exceeds the capacity of legitimate licensees. As trade increases and the trademark owners counterattack, there is a shift to the "gray" areas of deception. Finally the counterfeiters develop their own trademarks or acquire legitimate licenses . . . . The irony is that the former counterfeiters then may become the target of new counterfeiters.

*Id.*

<sup>117</sup> Comment, *The Private Sector Combats Products Counterfeiting*, 8 LOY. L.A. INT'L & COMP. L.J. 699, 702 (1986) (citing Italy as a source of counterfeit goods).

<sup>118</sup> 19 U.S.C.A. § 2901(10) (West 1988).

<sup>119</sup> Paris Convention for Protection of Industrial Property, March 20, 1888, as revised at the Stockholm Revision Conference, July 14, 1967, 21 U.S.T. 1538, T.I.A.S. No. 6903, 828 U.N.T.S. 305 [hereinafter Paris Convention].

<sup>120</sup> Schuyler, *Paris Convention for the Protection of Industrial Property-A View of the Proposed Revisions*, 8 N.C.J. INT'L & COM. REG. 155, 166 (1982).

<sup>121</sup> Rakoff & Wolff, *supra* note 20, at 176.

<sup>122</sup> Kunz-Hallstein, *The United States Proposal for a Gatt Agreement on Intellectual Property and the Paris Convention for the Protection of Industrial Property*, 22 VAND. J. TRANSNAT'L L. 265, 273 (1989).

One such source is the World Intellectual Property Organization ("WIPO"),<sup>123</sup> which became a specialized United Nations agency in 1974,<sup>124</sup> and oversees the Paris Convention and thirteen other agreements involving industrial and intellectual property.<sup>125</sup> WIPO has a committee of experts which meets annually to discuss measures aimed at fighting trademark counterfeiting. During one such conference, the committee formulated a draft model provision of an anti-counterfeiting code.<sup>126</sup> The committee of experts hoped that the provision would direct attention to the counterfeiting problem, and provide countries with information that would aid in the implementation of national anti-counterfeiting laws.<sup>127</sup> The WIPO was unable to develop a final set of provisions, however, in part because of disagreement between delegates over how they should incorporate the Paris Convention into the new draft.<sup>128</sup> Such discord, especially between developing and industrial countries, continually threatens the potential of ever creating an anti-counterfeiting code

<sup>123</sup> Convention Establishing the World Intellectual Property Organization, July 14, 1967, 21 U.S.T. 1749, T.I.A.S. No. 6932, 828 U.N.T.S. 3. The organization had 123 countries as of January, 1989. *Convention Establishing the World Intellectual Property Organization*, cited in 28 INDUS. PROP. (BNA) 5 (Jan., 1989).

<sup>124</sup> L. HENKIN, R.C. PUGH, O. SCHACHTER & H. SMIT, INTERNATIONAL LAW 1389 (2d ed. 1987) [hereinafter HENKIN].

<sup>125</sup> *Id.* at 1389-90.

<sup>126</sup> *Committee of Experts on Measures Against Counterfeiting and Piracy*, 27 INDUS. PROP. (BNA) 332 (Sept., 1988) [hereinafter *Measures Against Counterfeiting*]. The relevant portions of the draft model provisions read as follows:

- (1) Manufacturing as an Act of Counterfeiting. The manufacturing, or the preparation of the manufacturing, of goods
  - (i) that bear, or are accompanied by, a two-dimensional sign (word(s), letter(s), number(s), color(s), graphic representation(s), etc.), or whose form or packaging consists of three-dimensional features, that is or are a reproduction or a slavish or near-slavish imitation of a protected two dimensional or three-dimensional trademark, provided that the goods are of the same or a similar kind as any of the goods for which the trademark is protected or, even where the goods are of a different kind, that there is a danger of confusion regarding the origin of the goods . . .

....

. . . shall constitute an act of counterfeiting, provided that such goods are manufactured on a commercial scale and without the authorization of the owner of the right in the trademark . . . .

*Id.* (emphasis omitted). According to one WIPO participant, the draft code's definition of counterfeiting is too vague as it incorporates mere infringements as well as true counterfeits of trademarks. Such a definition threatens the progress of the negotiations within the WIPO on trademark counterfeiting. *Committee of Experts Fails to Agree on Model Legislation to Fight Counterfeiting, Piracy*, 5 INT'L TRADE REP. (BNA) 721, 722 (May 18, 1988) [hereinafter *Committee Fails to Agree*].

<sup>127</sup> *Measures Against Counterfeiting*, *supra* note 126, at 331.

<sup>128</sup> *Committee Fails to Agree*, *supra* note 126, at 721-22 (such disagreements stemmed from fundamentally different perceptions of the problem of trademark counterfeiting among member nations).

through WIPO.<sup>129</sup> WIPO<sup>130</sup> participates in the intellectual property negotiations at the current meeting of the General Agreement on Tariffs and Trade ("GATT").<sup>131</sup> GATT is both an international agreement and a dispute resolution organization of which the United States is a signatory. GATT has sponsored seven tariff and trade negotiations.<sup>132</sup> At the current GATT meeting, called the Uruguay round, which began in the fall of 1986, the United States is attempting to negotiate for "a consensus among GATT members to honor intellectual property laws and enforce such laws domestically as well as internationally."<sup>133</sup> More specifically, the United States' goal is the implementation of intellectual property obligations in GATT, and the creation of better dispute resolution methods necessary to enforce such rights.<sup>134</sup>

The United States, Japan, and the European Economic Community are currently supporting measures designed to achieve an agreement among the members of GATT on the creation and enforcement of laws designed to protect intellectual property in both domestic and international markets.<sup>135</sup> However, a group of mostly developing countries, led by Brazil, is resisting a GATT intellectual property accord, asserting that WIPO is the proper forum for such agreements<sup>136</sup> and that bringing in intellectual property issues would distract GATT from its other tasks.<sup>137</sup> The United States maintains that it would support a WIPO accord if it adhered to the

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<sup>129</sup> *U.S. Making Progress in Convincing Other Nations to Improve Rights Protection Laws*, 4 INT'L TRADE REP. (BNA) 557 (April 22, 1987) [hereinafter *U.S. Making Progress*] ("[d]eveloping country opposition to intellectual property rights protection has limited the effectiveness of the World Intellectual Property Organization").

<sup>130</sup> *Gatt Negotiating Group Sets Talks This Week on U.S. Proposal, WIPO Will Join Discussion*, 4 INT'L TRADE REP. (BNA) 1358, 1359 (Nov. 4, 1987). Then commissioner of Patents and Trademarks Donald Quigg said, "Washington 'recommends strongly that the [WIPO] representation at the GATT talks be at the highest level possible. The participation by WIPO or its director general in the GATT operation does not in any respect mean that WIPO should abandon its own programs.'" *Id.* In contrast, "[s]peaking on behalf of the so-called 'Group of 77,' Cuba said WIPO alone is the forum for discussion of trademarks, counterfeiting, and patents, and that GATT should not be involved." *Id.* These differences of opinion threaten to hamper the role of WIPO in GATT negotiations. *Key Players Jockey for Position on Farm Talks as Meeting Begins*, 5 INT'L TRADE REP. (BNA) 1587, 1588 (Dec. 7, 1988) [hereinafter *Key Players*].

<sup>131</sup> General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. (5) A3, T.I.A.S. No. 1700, 55 U.N.T.S. 187.

<sup>132</sup> HENKIN, *supra* note 124, at 1166.

<sup>133</sup> *Key Players*, *supra* note 130, at 1588.

<sup>134</sup> 19 U.S.C. § 2901(10) (1988).

<sup>135</sup> *EC Presents Detailed Proposal For GATT Coverage of Intellectual Property Rights*, 5 INT'L TRADE REP. (BNA) 1012 (July 13, 1988).

<sup>136</sup> *Key Players*, *supra* note 130, at 1588.

<sup>137</sup> The tasks include improving upon existing GATT measures. Comment, *Countering International Trade in Counterfeit Goods*, 12 BROOKLYN J. INT'L L. 339, 354 n.126 (1986).

Uruguay round timetable—meaning a completed agreement by 1990.<sup>138</sup> Due to the differences among developing and developed countries,<sup>139</sup> any agreement on counterfeiting may be beyond the realm of GATT.

But, even if a GATT agreement is reached in the current round of negotiations, it will be slow to take effect.<sup>140</sup> Furthermore, it or any other international agreement may not be enforced by the countries that have most of the counterfeiting because of their general opposition. Thus, international efforts by the United States to secure the protection of trademarks from counterfeiting, through international conventions and organizations, may be stymied altogether by the countries that foster counterfeiting.

#### C. UNILATERAL EFFORTS OF THE UNITED STATES IN THE INTERNATIONAL SPHERE

The United States does have some unilateral negotiating leverage when dealing with individual countries with a counterfeiting problem. The Generalized System of Preferences ("GSP"),<sup>141</sup> for instance, grants duty-free treatment to certain products of developing countries. Investigations into developing countries receiving GSP benefits are conducted by the United States Trade Representative ("USTR") upon its own initiative, or through petitions from private parties.<sup>142</sup> Upon an annual review, GSP treatment can be suspended, withheld, or withdrawn if it is discovered through an investigation that a developing country does not adequately safeguard intellectual property rights.<sup>143</sup> For instance, the President, upon the USTR's recommendation and investigation, denied Thailand's re-

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(citing MINUTES OF G.A.T.T. MEETING OF 20 NOV., 1984, G.A.T.T. Doc. C/M/183, at 29).

The developing countries have other fears:

These countries have also expressed the fear that anticounterfeit rules would be used by industrialized countries as a protectionist measure, thereby limiting importation of legitimate goods. . . . It was also reported that several developing nations took the view that the enactment of anti-counterfeiting rules within G.A.T.T. would simply reinforce the power of multinational corporations.

*Id.*

<sup>138</sup> *Key Players*, *supra* note 130, at 1588.

<sup>139</sup> Comment, *supra* note 137, at 354 n.126.

<sup>140</sup> *U.S. Making Progress*, *supra* note 129, at 557.

<sup>141</sup> 19 U.S.C. § 2461 (1988). The Caribbean Basin Initiative, 19 U.S.C. § 2702 (1988), provides benefits similar to those in GSP to Caribbean and some Central American nations. Trademark counterfeiting, however, has not been a major problem in those areas to date.

<sup>142</sup> *President Reagan Denies Thailand Larger GSP Benefits*, *Citing Intellectual Property Record*, 6 INT'L TRADE REP. (BNA) 96, 97 (Jan. 25, 1989) [hereinafter *Thailand*].

<sup>143</sup> 19 U.S.C. § 2464(c)(3)(B)(ii).

quest for additional duty-free status because of its failure to provide adequate intellectual property laws.<sup>144</sup> Such a denial is supposed to encourage the country to improve its protection of intellectual property. Denying GSP benefits will not be as effective a tool as it once was, however, because some of the most notorious counterfeiting nations, including Taiwan, Hong Kong, South Korea, and Singapore, have been removed from duty-free treatment because "their recent improvements in competitiveness" demonstrate that they do not need such assistance.<sup>145</sup> These countries represented sixty percent of all U.S. GSP eligible benefits.<sup>146</sup> Thus, the effectiveness of withholding GSP benefits has diminished considerably.

Remedies under section 301 of the amended Trade Act of 1974<sup>147</sup> are a more effective leverage tool in that the USTR can impose import duties<sup>148</sup> or suspend trade agreement concessions<sup>149</sup> with any country that does not adequately protect intellectual property rights.<sup>150</sup> Such penalties are a proven leverage tool for gaining intellectual property rights. For example, in 1985, the USTR self-initiated an investigation into the protection of patents and copyrights in South Korea.<sup>151</sup> After consultations with the USTR, South Korea responded with tougher intellectual property laws.<sup>152</sup> A determination to take any action is made after the USTR's investigation,<sup>153</sup> prompted by its own impetus or the petition of an interested party.<sup>154</sup> Actions taken upon these determinations are subject to the specific direction of the President of the United States.<sup>155</sup>

Another leverage tool that trademark owners can turn to are the provisions of section 337 of the amended Tariff Act of 1930,<sup>156</sup>

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<sup>144</sup> *Thailand*, *supra* note 142, at 96.

<sup>145</sup> *Four Pacific Rim Nations Are Graduated from GSP Status*, 35 PAT. TRADEMARK & COPYRIGHT J. (BNA) 282 (Feb. 11, 1988).

<sup>146</sup> *Id.* at 283 ("Balanced against economic considerations of the sizeable duty-free imports here, preserving GSP status for these countries could no longer be justified.").

<sup>147</sup> Pub. L. No. 100-418, §§ 1301-1307, 102 Stat. 1107, 1164-1184 (codified as amended at 19 U.S.C. §§ 2411-2419 (1988)) (commonly known as section 301 authority).

<sup>148</sup> 19 U.S.C. § 2411(c)(1)(B).

<sup>149</sup> 19 U.S.C. § 2411(c)(1)(A).

<sup>150</sup> 19 U.S.C. § 2411(d)(3)(B)(i)(II).

<sup>151</sup> *Retaliation Under Section 301*, INTERNATIONAL TRADE REPORTER'S U.S. IMPORT WEEKLY REFERENCE FILE (BNA) 60 (May, 5 1988) (Section 301 Table of Cases, Office of the USTR).

<sup>152</sup> *Id.*

<sup>153</sup> 19 U.S.C. § 2412. Certain findings require mandatory action. 19 U.S.C. § 2411.

<sup>154</sup> 19 U.S.C. § 2412.

<sup>155</sup> 19 U.S.C. § 2411(a)(1)(B)(ii).

<sup>156</sup> Pub. L. 100-418, § 1341, 102 Stat. 1107, 1211 (codified as amended at 19 U.S.C. § 1337 (1988)). Relevant sections of the elements that a complainant must establish to gain relief read as follows:

which allows for the exclusion from the United States<sup>157</sup> or the forfeiture or both of goods deemed counterfeit.<sup>158</sup> The International Trade Commission ("ITC") conducts investigations under section 337 on its own impetus or through a sworn complaint from the trademark owner.<sup>159</sup> The ITC's swift proceedings<sup>160</sup> and avoidance of the usual jurisdictional and enforcement problems often present in suits against foreign entities<sup>161</sup> are distinct advantages to a trademark owner. In addition, a trademark owner can pursue other legal actions simultaneously in the courts, as well as through the ITC under section 337, and is not precluded from suing in another forum if relief is denied.<sup>162</sup> Although the ability to maintain an action in the courts and through the ITC may seem like a powerful weapon in theory, in practice it may prove too expensive for the trademark owner to maintain both actions. As with GSP and section 301 actions, a valid complaint taken up with the ITC may be stymied by the whims of foreign policy as the President of the United States retains a veto power over any action.<sup>163</sup>

None of the three aforementioned unilateral measures have been imposed with any frequency to trademark counterfeiting. Even if they were, it is difficult to compel the enforcement of a new law: if the country does attempt to uphold the new law, then counterfeiters may merely move to a country where the laws are less stringent.<sup>164</sup> Even the United States, for example, has problems en-

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(a)(1)(A) Unfair methods of competition and unfair acts in the importation of articles . . . into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat of which is—

- (i) to destroy or substantially injure an industry in the United States;
- (ii) to prevent the establishment of such an industry; or
- (iii) to restrain or monopolize trade and commerce in the United States. . . .

. . . (C) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946.

*Id.*

"The elimination of an injury requirement [proving an injury to a U.S. industry] in 1988 for cases involving infringement of . . . trademarks . . . left the issues of infringement and establishment of valid and enforceable intellectual property rights as the major requirements for obtaining relief." *ITC Protective Actions*, INTERNATIONAL TRADE REPORTER'S U.S. IMPORT WEEKLY REFERENCE FILE (BNA) 131 (Sept. 28, 1988) (Analysis) [hereinafter *ITC Protective*].

<sup>157</sup> 19 U.S.C. § 1337(e).

<sup>158</sup> 19 U.S.C. § 1337(i).

<sup>159</sup> 19 U.S.C. § 1337(b).

<sup>160</sup> *ITC Protective*, *supra* note 156, at 131.

<sup>161</sup> P. Stern, *supra* note 113, at 676.

<sup>162</sup> *Id.*

<sup>163</sup> 19 U.S.C. § 1337(j).

<sup>164</sup> Finn, *supra* note 12, at 41; *East Asian Countries Strengthen Intellectual Property Protection*,

forcing its anti-counterfeiting laws. Another problem is that world-wide counterfeiting networks sometimes employ sophisticated distribution techniques.<sup>165</sup> Most countries probably have neither the sophistication nor the resources to uncover the discrete role that their country serves in an international counterfeiting scheme, or the standing to prosecute all the participants. For instance, in one perfume counterfeiting ring, "the bottles came from Italy and Spain, packaging was done in Mexico and England, and the money came from the United States through the Channel Islands."<sup>166</sup> Thus, the end result is that pressuring individual countries through unilateral efforts may not make much of a dent in an international problem.

Furthermore, unilateral remedies tend to antagonize the targeted countries.<sup>167</sup> The United States faces problems with these remedies at the GATT negotiations. A GATT panel has already determined that section 337 is inconsistent with GATT's equanimity principles in its "failure to provide identical procedures and standards for the enforcement of patent rights for domestic and foreign-produced goods,"<sup>168</sup> and section 301 will probably suffer the same fate soon.<sup>169</sup> The adverse reactions by many countries to these unilateral methods at GATT may compel the United States to modify sections 337<sup>170</sup> and 301 in the interest of reaching an agreement. At a minimum, it may lead the President to exercise his veto more frequently over such unilateral actions in order to avoid more confrontations while GATT negotiations proceed. Thus, the potency of unilateral remedies, hampered already by the sophistication of counterfeiters, is in danger of being further compromised.

#### D. CUSTOMS

United States Customs<sup>171</sup> enforces most of the unilateral penal-

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32 PAT. TRADEMARK & COPYRIGHT J. (BNA) 38, 39 (May 8, 1986) [hereinafter *East Asian*] (statement by Stephen F. Sims, staff member of the House Energy and Commerce Subcommittee on Oversight and Investigations).

<sup>165</sup> Comment, *supra* note 117, at 701 (documenting the presence of a large and sophisticated international trademark counterfeiting ring).

<sup>166</sup> Chiles, *supra* note 9, at 38.

<sup>167</sup> According to Congressman Robert W. Kastenmeier, Chairman, Subcommittee on Courts, Intellectual Property and the Administration of Justice, and David Beier, Counsel to the Committee of the Judiciary: "[m]any trade specialists view this type of unilateral retaliation as antithetical to the multilateral trade system because it creates a significant risk of similar unilateral action against the United States." Kastenmeier & Beier, *International Trade and Intellectual Property: Promise, Risks, and Reality*, 22 VAND. J. TRANSNAT'L. L. 285, 299 (1989).

<sup>168</sup> *Id.* at 298.

<sup>169</sup> Beier, *Remarks of David Beier*, 22 VAND. J. TRANSNAT'L. L. 333, 336 (1989).

<sup>170</sup> Kastenmeier & Beier, *supra* note 167, at 298.

<sup>171</sup> See 19 C.F.R. § 12.39 (1988).

ties, including exclusion and forfeiture orders, and in general serves as a last defense to counterfeit imports from abroad. The agency, however, searches a low percentage of imported goods to check for fakes.<sup>172</sup> Despite limited success with seizures,<sup>173</sup> investigations,<sup>174</sup> and recent court decisions,<sup>175</sup> counterfeiters can usually evade customs.<sup>176</sup> For example, counterfeiters often import goods without labels and then attach them once they are in the country.<sup>177</sup>

The key to effectively implementing the customs regulations<sup>178</sup> is for private companies to ensure that their goods are registered with customs, and to educate customs officials as to what their genuine goods look like and how they are usually counterfeited.<sup>179</sup> The Customs service itself employs an interdisciplinary approach to enforcement through a program called "The Fraud Center," which in-

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<sup>172</sup> Chiles, *supra* note 9, at 39 (In 1985, of the 1.5 million containers that entered Los Angeles area ports, Customs searched only 2-5% thoroughly.).

<sup>173</sup> *Id.* (\$35 million in counterfeit goods seized in 1985); *Counterfeit Goods Valued At \$7.6 Million Seized*, 4 INT'L TRADE REP. (BNA) 593 (April 4, 1987) (\$7.6 million seized in first six months of fiscal 1987).

<sup>174</sup> *Threat of Substandard Nuts, Bolts, Screws Probed by House Energy and Commerce Panel*, 4 INT'L TRADE REP. (BNA) 1010, 1011 (Aug. 12, 1987) (William Rosenblatt, then Assistant Commissioner of the U.S. Customs Service Office of Enforcement, reports on efforts to stem counterfeit fastener trade).

<sup>175</sup> *See, e.g., United States v. Watches*, 692 F. Supp. 1317 (S. D. Fla. 1988) (Fully operational watch bodies, absent the faces bearing counterfeit trademarks, are still seizable counterfeit merchandise.).

<sup>176</sup> Chiles, *supra* note 9, at 39. *Cf. Watches*, 692 F. Supp. at 1317.

<sup>177</sup> Chiles, *supra* note 9, at 39-40.

<sup>178</sup> United States Customs Service Regulations, 19 C.F.R. § 133.23(a) (1988). The following are relevant sections of the Customs service regulations dealing with counterfeit goods:

Articles bearing counterfeit trademarks:

- (a) Definition. A "counterfeit trademark" is a spurious trademark which is identical with, or substantially indistinguishable from, a registered trademark.
- (b) Seizure. Any Article imported into the United States bearing a counterfeit trademark shall be seized and, in the absence of written consent from the trademark owner, forfeited for violation of the Customs laws.
- (c) Notice to trademark owner. The owner of the trademark shall be notified of the seizure and the quantity of the articles seized. Unless the trademark owner, within 30 days of notification, provides written consent to importation of the articles, exportation, entry after obliteration of the trademark, or other appropriated disposition, the article shall be disposed of in accordance with § 133.52, subject to the importer's right to petition for relief from the forfeiture under the provisions of Part 171 of this chapter.

*Id.*

The following relevant sections of 19 C.F.R. § 133.52(a) (1988), pertain to the disposal of counterfeit merchandise: "The Commissioner of Customs or his designee shall dispose of forfeited articles bearing a counterfeit trademark after obliteration of trademark, where feasible, in the following manner: (1) Government Use . . . (2) Gifts to Charity . . . (3) Sale . . . (4) Destruction . . ." *Id.*

<sup>179</sup> Chiles, *supra* note 9, at 39 (Apple Computer provided customs inspectors with kits to identify counterfeits of its trademarks and copyrights.).



volves coordinated operations with agents from the FBI, FDA, and other governmental agencies.<sup>180</sup> The agency has the right to confiscate and destroy counterfeits of goods registered with customs.<sup>181</sup>

With the trade volume so high, however, and the difficulty of distinguishing the counterfeit from the authentic, customs agents do not at present have the ability to halt most of the importation of counterfeit goods. The understaffing of custom's agents at domestic ports, because of budget constraints, is a major factor contributing to this inability.<sup>182</sup> Furthermore, according to Patrick O'Brien, then assistant regional commissioner for United States Customs in New York, trademark counterfeiting is "not our No. 1 priority"—it is the number four priority "[after] narcotics, technology exporting and illegal arms sales."<sup>183</sup>

Another problem concerns the understaffing of the Customs Bureau abroad, particularly in counterfeiting hotspots of the Pacific rim. Agents abroad can help identify incoming shipments of counterfeit goods to the United States through undercover investigations and other activities and can work with foreign governments in stemming the tide of such illegal shipments. The Bureau is understaffed abroad because of both the reluctance of many United States embassies to hold open one of their personnel slots for a customs officer and general budget cuts.<sup>184</sup> Thus, it seems that trademark owners cannot rely on the customs service to adequately protect their trademarks from international counterfeiting, even with the cooperation of the trademark owners themselves.

#### E. EFFORTS OF PRIVATE INDUSTRY AND THE GOVERNMENT TO FIGHT INTERNATIONAL TRADEMARK COUNTERFEITING

Recognizing that government options are either untested or unreliable, many private trademark owners have united in private international organizations that attempt to fight counterfeiting.<sup>185</sup>

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<sup>180</sup> Telephone interview with Jim Wilson, United States Customs Agent, Chicago Regional Office (Feb. 20, 1989).

<sup>181</sup> See *supra* note 178, § 133.52(a).

<sup>182</sup> Subcommittee, *supra* note 13, at 23.

<sup>183</sup> Foltz, *A Plague of Counterfeit Goods*, NEWSWEEK, Dec. 17, 1984 at 69; Chiles, *supra* note 9, at 39.

And even with those containers that do get the inspector's scrutiny, counterfeiters don't take first priority. Each inspector wears hundreds of hats: watching for agricultural fungi and pests, challenging import classifications that attempt to sneak products into the country without payment of duties and looking for contraband guns and narcotics.

Chiles, *supra* note 9, at 39.

<sup>184</sup> East Asian, *supra* note 164, at 39.

<sup>185</sup> One such organization is the San Francisco-based International Anti-Counterfeit-

Private industry also partially financed and participated in a joint conference with the United States Government in Taiwan that was designed to stem the flow of counterfeits from that country.<sup>186</sup> The seminar, which focused on the enforcement of intellectual property rights, was the result of two years of planning by United States government officials and private industry.<sup>187</sup> The seminar included prominent members of the Taiwanese judicial and law enforcement agencies.<sup>188</sup> Wide publicity of the event in the media and the extensive participation by Taiwanese officials helped to accomplish the seminar's goal of setting an agenda to address United States companies' concerns.<sup>189</sup> Future seminars have been planned in other areas of East Asia.<sup>190</sup>

The success of such a seminar program in terms of stemming counterfeiting remains to be proven, but the participation and interest of the Taiwanese demonstrate some potential for the success of such a non-confrontational approach. Seminars may well prove more successful than the United States government's attempts to pressure nations through sections 301 and 337 or through GSP actions. Such pressure tactics may just entrench those developing nations that do not favor heavy-handed treatment. Once again, however, it may be beyond the capabilities of developing countries to combat the problem given the scope of the counterfeiting trade. To be successful, such conferences must include the participation and cooperation of all or at least most of the developing countries where there is a counterfeiting problem, lest the counterfeiters just move from country to country. The failures and uncertainty of international efforts to curb the importation of counterfeit goods places emphasis on the enforcement of domestic anti-counterfeiting laws.

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ing Coalition ("IAC"). With a membership of over 300 major manufacturers, the IAC has successfully pressured Congress into giving customs officials the right to seize suspected counterfeit goods. Fleming, *The Bogus Brands Boom*, WORLD PRESS REV., Apr., 1985, at 50. It was also very active in the formulation of model drafts for the Trademark Counterfeiting Act. Rakoff & Wolff, *supra* note 20, at 147 n.12. Another organization, "[t]he Paris-based International Chamber of Commerce (ICC), which has 7,000 member corporations and associations in 100 countries, has created a Counterfeiting Intelligence Bureau. With a staff of three investigators and an annual budget of \$65,000, the bureau will attempt to track down counterfeiters for its clients." Fleming, *supra*, at 50. Such a small budget and staff, however, will probably undercut the effectiveness of this bureau.

<sup>186</sup> Hardee, *Seminar in Taipei Launches Second Phase of U.S. Efforts to Secure Improved Protection of Intellectual Property*, BUS. AM., Feb. 29, 1988, at 28.

<sup>187</sup> *Id.*

<sup>188</sup> *Id.*

<sup>189</sup> *Id.*

<sup>190</sup> *Id.*

## F. STATE CRIMINAL LAWS FOR TRADEMARK COUNTERFEITING

Today a majority of the states have some type of criminal penalty<sup>191</sup> for trademark counterfeiting.<sup>192</sup> At present, criminal sanctions vary significantly in the scope of their anti-trademark counterfeiting provisions. For instance, some states penalize the crime as a misdemeanor while other states term it a felony.<sup>193</sup> In a recent case, and one of the few that is reported, the Supreme Court of Utah in *State v. Frampton*<sup>194</sup> affirmed the conviction of a counterfeiter for two counts of criminal simulation,<sup>195</sup> including third-degree felony and Class B misdemeanor for the sale of counterfeit

<sup>191</sup> In 1845, New York established the first anti-counterfeiting statute in the country. Pattishall, *supra* note 24, at 461.

<sup>192</sup> The following state codes classify trademark counterfeiting as a felony: ALA. CODE § 13A-8-10.4 (1987); ALASKA STAT. § 11.46.530 (1989); ARIZ. REV. STAT. ANN. § 13-2004 (1989); ARK. STAT. ANN. § 5-37-213 (1987); CAL. PENAL CODE § 350 (West 1988); LA. REV. STAT. ANN. § 14:229 (West 1988); N.D. CENT. CODE §§ 12.1-24-01, 12.1-24-02, 12.1-24-03 (1987); OHIO REV. CODE ANN. § 2913.32 (Baldwin 1989); UTAH CODE ANN. § 76-6-518 (1988).

The following state codes classify trademark counterfeiting as a misdemeanor:

ALA. CODE § 13A-8-10.4 (1987); ALASKA STAT. § 11.46.530 (1989); ARIZ. REV. STAT. §§ 44-1454, 44-1456 (1987); ARK. STAT. ANN. § 5-37-213 (1987); CAL. PENAL CODE §§ 350, 351(a) (West 1988); COLO. REV. STAT. § 18-5-110 (1986 & Supp. 1988); CONN. GEN. STAT. ANN. § 53a-141 (West 1985); D.C. CODE § 22-1402 (1989); FLA. STAT. ANN. § 831.03 (West 1988); HAW. REV. STAT. §§ 482-4, 482-5 (1985); IDAHO CODE §§ 18-3614, 18-3615 (1987); ILL. REV. STAT. ch. 140, para. 25, § 3, para. 26, § 4 (1988); ME. REV. STAT. ANN. tit. 17-A, § 705 (1988); MD. CRIM. LAW CODE ANN., § 195 (1988); MICH. STAT. ANN. § 429.43 (Callaghan 1988); MINN. STAT. § 333.42 (1988); MISS. CODE ANN. § 97-21-53 (1988); MONT. CODE ANN. § 45-6-318 (1989); NEB. REV. STAT. § 28-606 (1988); NEV. REV. STAT. §§ 205.205, 205.210 (1988); N.J. REV. STAT. § 2C: 21-2 (1988); N.Y. PENAL LAW § 170.45 (McKinney 1988); N.D. CENT. CODE § 12.1-24-01 (1987); OR. REV. STAT. § 647.125, 647.991 (1987); 18 PA. CONS. STAT. § 4102 (1988 & Supp. 1989); S.D. CODIFIED LAWS ANN. §§ 37-6-2, 3 (1988); TENN. CODE ANN. §§ 39-3-923, 47-25-513 (1988); TEX. PENAL CODE ANN. tit. 7, § 32.22 (Vernon 1988); UTAH CODE ANN. §§ 76-6-518, 76-10-1003 (1988); VT. STAT. ANN. tit. 9, §§ 2530-2531 (1988); VA. CODE ANN. § 18.2-214 (1988); WASH. REV. CODE §§ 9.16.030, 9.16.040 (1988); W. VA. CODE §§ 47-2-3, 47-2-6, 47-2-7 (1988); WIS. STAT. § 132.03 (1988).

The following states have no applicable criminal law: Delaware, Georgia, Indiana, Iowa, Kansas, Kentucky, Massachusetts, Missouri, North Carolina, New Hampshire, New Mexico, Oklahoma, Rhode Island, South Carolina, and Wyoming. This compilation of state anti-counterfeiting codes is an updated and modified version of a compilation that appeared in Correll, *Using Criminal Sanctions to Combat Trademark Counterfeiting*, 14 AM. INTELL. PROP. L. A. Q. J. 278, 290-317 (1986).

<sup>193</sup> *Id.*

<sup>194</sup> 737 P.2d 183 (Utah 1987).

<sup>195</sup> *Id.* at 185-86. "The criminal simulation statute is essentially a forgery statute which extends beyond the forgery of written documents and instruments." *Id.* at 192 (quoting MODEL PENAL CODE & COMMENTARIES, Part II, § 224.2 at 307 (American Law Institute)). The pertinent portions of the Utah simulation statute governing this case read as follows:

"(1) A person is guilty of criminal simulation if, with intent to defraud another:

baseball gloves.<sup>196</sup> In this case, Wilson Sporting Goods initiated a complaint with the local police, which conducted an undercover investigation of the local retailer selling the counterfeit gloves.<sup>197</sup> The defendant argued that he should have been prosecuted under the counterfeit trademark statute<sup>198</sup> instead of the simulation statute. The court ruled against a restrictive reading of the criminal simulation statute that would limit the statute to unique chattels, such as paintings or antiques, and held that there was nothing in the language of the statute which barred its application to the altering of a modern, commercially manufactured product.<sup>199</sup> More precisely, the court said that the simulation statute was designed to protect the consumer, and as such should be construed broadly to include a variety of product counterfeiting.<sup>200</sup> The court followed the suggestions of the Model Penal Code of the American Law Institute.<sup>201</sup>

Similarly in *People v. Hafif*,<sup>202</sup> the New York Criminal Court held that the wording of a criminal simulation statute, similar to the one in *Frampton*, may extend to include watches and other commercially mass-produced items, including the falsely stamped jewelry in this case.<sup>203</sup> The court stated that the statute was geared toward forgery of written documents and instruments, but was extended to cover "fraudulent simulation of furniture, paintings, jewels, and

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(a) He makes or alters an object in whole or in part so that it appears to have value because of age, antiquity, rarity, source, or authorship that it does not have; or

(b) He sells, passes, or otherwise utters an object so made or altered; or

(c) He possesses an object so made or altered with intent to sell, pass, or otherwise utter it; or

(d) He authenticates or certifies an object so made or altered as genuine or as different from what it is.

(2) Criminal simulation is punishable as follows:

(a) If the value defrauded or intended to be defrauded is less than \$100, the offense is a class B misdemeanor.

(b) If the value defrauded or intended to be defrauded exceeds \$100 but is less than \$1,000, the offense is a class A misdemeanor.

(c) If the value defrauded or intended to be defrauded exceeds \$1,000 but is less than \$2,500, the offense is a felony of the third degree.

(d) If the value defrauded or intended to be defrauded exceeds \$2,500, the offense is a felony of the second degree."

UTAH CODE ANN. § 76-6-518 (1978), quoted in *Frampton*, 737 P.2d at 185.

<sup>196</sup> *Frampton*, 737 P.2d at 186.

<sup>197</sup> *Id.*

<sup>198</sup> UTAH CODE ANN. § 76-10-1003 (1984). The maximum penalty under this provision is a misdemeanor, whereas under § 76-6-518 it is a felony.

<sup>199</sup> *Frampton*, 737 P.2d at 192.

<sup>200</sup> *Id.* at 192-93.

<sup>201</sup> *Id.* at 192 (citing MODEL PENAL CODE AND COMMENTARIES, Part II, § 224.2, at 307 (American Law Institute)).

<sup>202</sup> 128 Misc. 2d 713, 491 N.Y.S.2d 226 (N.Y. Crim. Ct. 1985).

<sup>203</sup> *Id.* at 714, 491 N.Y.S.2d at 228.

other objects.' ”<sup>204</sup> The court also stated that “the purpose of the statute is to protect consumers.”<sup>205</sup>

*Frampton* and *Haff* represent the total number of reported state trademark counterfeiting cases for at least the last fourteen years.<sup>206</sup> There are undoubtedly unreported opinions, including cases where the defendant plea bargained.<sup>207</sup> Nevertheless, such a small number of reported cases strongly suggests that the state statutes criminalizing trademark counterfeiting are underused. According to Craig O. Correll, then Associate General Counsel of Ocean Pacific, Ltd., “[l]ocal police agencies and prosecutors are unfamiliar with these laws. Enforcement of obscure criminal codes is discretionary; law enforcement agencies can and do decline to become involved.”<sup>208</sup> Moreover, many district attorneys do not realize that trademark counterfeiting is a criminal offense; it is difficult to convince them to devote their resources to something they consider a civil matter.<sup>209</sup>

Most of the burden thus falls on the trademark owner to achieve results under state statutes. The trademark owner, however, does not normally have the same training or expertise in investigating criminals as do the local law enforcement agents. In fact, “very few manufacturers of trademarked goods employ in-house counsel and investigators to deal with their counterfeiting problems,”<sup>210</sup> and outside counsel to trademark owners tend to use civil remedies with which they are more accustomed.<sup>211</sup> The state anti-counterfeiting criminal laws thus fall short of protecting consumers and trademark owners alike from counterfeiters.

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<sup>204</sup> *Id.* (quoting MODEL PENAL CODE AND COMMENTARIES, Part II, § 224.2, at 306-307 (American Law Institute)).

<sup>205</sup> *Haff*, 128 Misc. 2d at 714, 491 N.Y.S.2d at 228.

<sup>206</sup> Several cases, however, have upheld convictions under various state statutes criminalizing the sale of counterfeit controlled substances over the last 14 years. *See, e.g.,* *Ohio v. Mughni*, 33 Ohio St. 3d 65, 514 N.E.2d 870 (1987); *Skinner v. State*, 182 Ga. App. 370, 355 S.E.2d 726 (1987).

<sup>207</sup> Correll, *supra* note 192, at 287 (vast majority of cases will be resolved short of trial).

<sup>208</sup> *Id.* at 289; *see also* Chiles, *supra* note 9, at 41 (counterfeiters do not usually go to jail because prosecutors do not want to take the time to push for prison sentences). Correll suggests that the “trademark owner who wishes to bring a criminal action should be willing to assist the agency when requested. This includes promptly returning phone calls and providing a quick means of communication between the trademark owner and the sheriff or police department handling the case.” Correll, *supra* note 192, at 289. An innovative approach is the use of citizens’ arrests at flea markets, but even this remedy may leave the trademark owner subject to a wrongful arrest suit. *Id.* at 281-82.

<sup>209</sup> *Id.* at 289.

<sup>210</sup> *Id.* at 284.

<sup>211</sup> *Id.* at 286.

G. IMPROVED CIVIL REMEDIES UNDER THE TRADEMARK COUNTERFEITING ACT OF 1984

Considering the lack of enforcement under the criminal provisions of the Trademark Counterfeiting Act and the lack of effectiveness of the international, federal, and state alternatives, the civil provisions of the Lanham Act<sup>212</sup> would appear to bear considerable importance in the fight against trademark counterfeiting. Yet here the effectiveness of the civil provisions are diluted by their monetary cost and by the incongruity of civil provisions combating a criminal problem.

The Trademark Counterfeiting Act of 1984<sup>213</sup> gave the Lanham Act stronger tools to fight counterfeiting by codifying *ex parte* seizures<sup>214</sup> and by mandating treble damages<sup>215</sup> in counterfeiting cases. The question remains whether such measures adequately thwart trademark counterfeiting. For example, courts will grant *ex parte* seizure orders only if the applicant makes the required proofs and abides by certain limitations.<sup>216</sup> The applicant must demonstrate through a sworn affidavit that "an order other than an *ex parte* seizure order is not adequate";<sup>217</sup> the action has not been publicized;<sup>218</sup> a likelihood of success in showing that the defendant's marks used in connection with a sale or distribution of goods are counterfeit;<sup>219</sup> an immediate and irreparable injury will occur without the seizure;<sup>220</sup> the counterfeit goods will be at the place identi-

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<sup>212</sup> Prior to the passage of the Trademark Counterfeiting Act of 1984, the civil remedies vested in the Lanham Act—the basic federal statute covering trademark registrations and infringement suits—did not adequately stem the tide of trademark counterfeiting. Rakoff & Wolff, *supra* note 20, at 163. The remedies leveled against counterfeiters included equitable injunctive relief, including a provision for treble damages in "exceptional cases." *Id.* Judges tended to view all disputes under the Lanham Act as good faith disputes between commercial entities, which the majority of regular infringement disputes are. *Id.* Thus, courts were reluctant to grant treble damages, or *ex parte* seizure orders, even if warranted by blatant counterfeiting. *Id.* Counterfeiters usually keep their goods on hand in a readily mobile state (so that any notice would tip them off and the goods would quickly disappear) thus making an *ex parte* seizure particularly necessary. *In re Vuitton et Fils S.A.*, 606 F.2d 1, 3 (2d Cir. 1979).

<sup>213</sup> Pub. L. No. 98-473, 1503, 98 Stat. 2179, 2180 (amending The Lanham Act, 15 U.S.C. §§ 1116-1118 (1988)).

<sup>214</sup> 15 U.S.C. at § 1116 (d)(1)(a).

<sup>215</sup> 15 U.S.C. at § 1117(b); *See* *Louis Vuitton v. After Dark Boutique*, 680 F. Supp. 1507 (N.D. Fla. 1988) (an award of treble damages and reasonable attorney's fees in a trademark counterfeiting case under the revised Lanham Act).

<sup>216</sup> 15 U.S.C. § 1116(d).

<sup>217</sup> 15 U.S.C. § 1116(d)(4)(B)(i).

<sup>218</sup> 15 U.S.C. § 1116(d)(4)(B)(ii) (a restriction that affects the deterrent effect of the seizure and is not present in criminal actions).

<sup>219</sup> 15 U.S.C. § 1116(d)(4)(B)(iii).

<sup>220</sup> 15 U.S.C. § 1116(d)(4)(B)(iv). Such injury is a routinely easy element to prove

fied;<sup>221</sup> the harm to the trademark owner from the counterfeiting outweighs the potential harm of the seizure to the person against whom it is ordered;<sup>222</sup> and the defendant with notice would "destroy, move, hide, or otherwise make such matter inaccessible to the court."<sup>223</sup> An applicant can satisfy the "inaccessible" element by describing the defendant's past efforts to avoid judicial process.<sup>224</sup> "The Act follows the prior practice of allowing seizure orders to be issued against 'John Doe' defendants when the sellers of counterfeit goods are transitory, unidentifiable defendants, such as itinerant street peddlers and sellers at swap meets and flea markets."<sup>225</sup>

Besides the counterfeit goods, the applicant also can seize the counterfeiter's "means of making such marks, and records documenting the manufacture, sale, or receipt of things involved."<sup>226</sup> Such records help in proving the case against the defendant and in discovering the scope of the counterfeiting, which may in turn lead to seizures and suits against other identified counterfeiters. Reasonable prior notice of the seizure must also be afforded the local United States Attorney.<sup>227</sup> In addition, a bond must be posted to cover the possibility of a wrongful seizure.<sup>228</sup> A victim who suffers damage from a wrongful seizure can recover "lost profits, cost of the materials, loss of good will and punitive damages in instances where the seizure was sought in bad faith, and, unless the court finds extenuating circumstances . . . a reasonable attorney's fee."<sup>229</sup> The court also has the option of awarding prejudgment interest.<sup>230</sup> Thus, the trademark owner must conduct a careful investigation of

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once the applicant establishes the use of a counterfeit mark. Smith, *Obtaining Early and Effective Relief Against Trademark Counterfeiting*, 10 COMMENT L.J. 1049, 1061 (1988).

<sup>221</sup> 15 U.S.C. § 1116(d)(4)(B)(v).

<sup>222</sup> 15 U.S.C. § 1116(d)(4)(B)(vi).

<sup>223</sup> 15 U.S.C. § 1116(d)(4)(B)(vii).

<sup>224</sup> Joint Statement, *supra* note 2, at H12081.

<sup>225</sup> Smith, *supra* note 220, at 1061-62.

<sup>226</sup> 15 U.S.C. § 1116(d)(1)(A).

<sup>227</sup> 15 U.S.C. at § 1116(d)(2). Notifying the United States Attorney of an impending seizure provides him or her with the opportunity to participate in the action, or request the denial of the seizure where an ongoing criminal investigation may be disrupted. Smith, *supra* note 20, at 1061; see also Fanning, *Rambo & Rambo Attorneys-at-Law*, FORBES, Jan. 26, 1987, at 76 (notice is often received too late).

<sup>228</sup> 15 U.S.C. § 1116(d)(4)(A).

<sup>229</sup> 15 U.S.C. § 1116(d)(11).

<sup>230</sup> 15 U.S.C. § 1116(d)(11). The counterfeit goods must be seized by a United States marshal or other law enforcement official. 15 U.S.C. § 1116(d)(9). A potential problem might occur when there are not enough marshalls or other law enforcement personnel to conduct the seizures. The role of the plaintiff's attorney is left to the discretion of the court issuing the seizure order. Joint Statement, *supra* note 2, at H12082. The drafters did not include a provision sanctioning the destruction of counterfeit goods seized by plaintiff and maintained in his or her possession, as opposed to the destruction of just

the counterfeiter before applying for the ex parte order to avoid the cost of a wrongful seizure.

Even though ex parte seizure has been an effective weapon in the fight against trademark counterfeiting,<sup>231</sup> the success has come with high monetary costs in the form of investigations required to lay the groundwork for seizures and civil suits.<sup>232</sup> It is a cost that "inhibit[s] some legitimate manufacturers from pursuing their own actions against counterfeiters."<sup>233</sup>

Mandatory treble damages in trademark counterfeiting civil suits, therefore, would appear to be particularly useful.<sup>234</sup> The 1984 revision to the Lanham Act states that a court shall award "three times . . . profits or damages, whichever is greater," and a reasonable attorney's fee against liable counterfeiters.<sup>235</sup> Even though mandatory in most cases, a court can deny such damages on the basis of "extenuating circumstances,"<sup>236</sup> thereby dampening its deterrent value. A court can also award the cost of investigations<sup>237</sup> and prejudgment interest<sup>238</sup> at its discretion.

All the damage provisions of the amended Lanham Act, however, are not as helpful as they might seem because plaintiff trademark owners have difficulty collecting their judgments.<sup>239</sup> For example, counterfeiters are usually sophisticated in their attempts to avoid detection; thus, the person actually caught selling counterfeit goods is usually the flea market salesperson, or some other dis-

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the mark itself, and only one reported decision, *Fendi S.A.S. Di Paola v. Cosmetic World, Ltd.*, 642 F. Supp. 1143, 1147 (S.D.N.Y. 1986), has allowed it.

<sup>231</sup> The ex parte seizure order has helped significantly in the fight against trademark counterfeiting. Engardio, *Companies Are Knocking Off the Knockoff Outfits*, Bus. Wk., Sept. 26, 1988, at 86; see also Fanning, *supra* note 227, at 76 (ex parte seizure used with increasing frequency).

<sup>232</sup> Bill Ellis, who runs a California detective agency that specializes in anti-counterfeiting measures, offers advice to new entrepreneurs: "[g]et into the market right away, make your fortune and retire to Hawaii. It won't take long at all for the counterfeiters to move in, and then it will take a million dollars a year for you to keep control." Chiles, *supra* note 9, at 42. According to Izod attorney Theodore R. Voss, "If you are very, very active, you can keep the problem contained . . . But the expense is enormous, and you can't keep the pressure up indefinitely." Engardio, *supra* note 231, at 88.

<sup>233</sup> Comment, *supra* note 117, at 705.

<sup>234</sup> 15 U.S.C. § 1117(b).

<sup>235</sup> *Id.*

<sup>236</sup> Joint Statement, *supra* note 2, at H12083 (It would be "highly unusual" for extenuating circumstances to exist.).

<sup>237</sup> The award of attorney's fees may also provide for the cost of investigators if they have acted under the direction of the plaintiff's attorney. *Id.*

<sup>238</sup> 15 U.S.C. § 1117(b).

<sup>239</sup> Trademark counterfeiters are elusive. "Even if a big corporation wins a big judgment, collecting is difficult. Most of the pros operate with cash, leaving few assets to garnish." Engardio, *supra* note 231, at 88.



tributor at the lowest rung of the counterfeiting chain<sup>240</sup> who is poor and judgement proof. Injunctive remedies are usually ineffective as well, because counterfeiters usually set up shop under a different front name to escape detection.<sup>241</sup>

The United States Supreme Court decision in *Young v. U.S. ex rel. Vuitton et Fils S.A.*<sup>242</sup> underscored the problem of enforcing injunctions in trademark counterfeiting cases. In *Vuitton*, the defendants were enjoined through an earlier civil proceeding from counterfeiting Vuitton leather products.<sup>243</sup> Vuitton later presented an affidavit to the district court through its attorney alleging that petitioners had violated the injunction by continuing to sell counterfeit goods.<sup>244</sup> The district court noted probable cause to believe the petitioners contumacious, and appointed the private attorney who had represented Vuitton in the original civil action to investigate and prosecute the petitioners for criminal contempt.<sup>245</sup> On appeal, the petitioners claimed that the private attorney in this situation was biased due to his relationship as counsel for Vuitton.<sup>246</sup> The Court of Appeals for the Second Circuit, however, upheld the district court's appointment of the interested prosecutor.<sup>247</sup> The Supreme Court, relying on its supervisory authority,<sup>248</sup> reversed the lower court decisions and held that the use of an interested prosecutor was too prejudicial to allow for even a harmless error review.<sup>249</sup>

The *Vuitton* opinion is well-reasoned. It is difficult to see how an attorney can owe an allegiance to his client without losing his prosecutorial impartiality. Notwithstanding the merits of the case, however, the use of an interested prosecutor in *Vuitton* was an understandable response by the district court and counsel for Vuitton to the ongoing problem of enforcing contempt citations where either the United States Attorney in his or her discretion may decide not to take action when the case is referred to him or her from the courts, or where a disinterested prosecutor appointed by the courts may lack the resources, expertise, or zeal necessary to pursue a criminal investigation. *Vuitton* thus underscores the general prob-

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<sup>240</sup> *Id.*

<sup>241</sup> Rakoff & Wolff, *supra* note 20, at 165.

<sup>242</sup> 481 U.S. 787 (1987).

<sup>243</sup> *Id.* at 790.

<sup>244</sup> *Id.* at 791.

<sup>245</sup> *Id.* at 791-92.

<sup>246</sup> *Id.* at 793.

<sup>247</sup> *Id.*

<sup>248</sup> *Id.* at 802.

<sup>249</sup> *Id.* at 810. The decision did not preclude the appointment of a disinterested private prosecutor by the Court as an exercise of its inherent supervisory power. *Id.* at 800.

lem trademark owners continue to face in relying on the effectiveness of civil remedies against counterfeiters.

#### IV. THE ENFORCEMENT OF CRIMINAL SANCTIONS UNDER THE TRADEMARK COUNTERFEITING ACT OF 1984 — THE BEST ALTERNATIVE

The civil, state, federal, and international alternatives to the Act's criminal sanctions are inadequate; a criminal deterrent is therefore necessary. The Act provides the government with the criminal law necessary to prosecute counterfeiters. Consumers and trademark owners alike rely on the government to enforce this law adequately in the absence of any other remedy of equal effectiveness. The legislators who supported the Trademark Counterfeiting Act of 1984 recognized that "a combination of appropriate prison terms and substantial fines will create a needed deterrent to trademark counterfeiting."<sup>250</sup> In 1984, however, a Justice Department official stated baldly that, while the Justice Department would try to maintain "a sufficient prosecution presence, . . . no one should expect that we are going to initiate hundreds of cases."<sup>251</sup> The prosecutions thus far, being so few in number,<sup>252</sup> fall short of achieving a sufficient presence.

Several factors contribute to the scarcity of prosecutions under the Trademark Counterfeiting Act of 1984. First, budgetary constraints affect the government's ability to conduct its fight against trademark counterfeiting. A policy of greater enforcement, however, would practically pay for itself with tangible economic and social benefits. For instance, lost revenue<sup>253</sup> to counterfeiting would be recouped and taxed, jobs would be restored,<sup>254</sup> and injury and loss of life to dangerous counterfeit goods would diminish.<sup>255</sup> On a more intangible level, manufacturers would have an added incentive to research and market new and potentially useful goods, and consumers would have more confidence in the marketplace, as trademarks would better guarantee a consistency in the quality of goods purchased on a repeated basis.<sup>256</sup> Thus, the social and economic benefits of a policy of greater enforcement would be manifold, and

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<sup>250</sup> Joint Statement, *supra* note 2, at H12077.

<sup>251</sup> *Knockoffs Won't Be Knocked Out*, Bus. Wk., Nov. 5, 1984, at 143.

<sup>252</sup> See *supra* notes 90-97 and accompanying text.

<sup>253</sup> See *supra* note 12 and accompanying text.

<sup>254</sup> See *supra* note 13 and accompanying text.

<sup>255</sup> See *supra* notes 14-20 and accompanying text.

<sup>256</sup> E. KITCH & P. PERLMAN, *LEGAL REGULATION OF THE COMPETITIVE PROCESS* 259 (2d ed. 1987).

with proper allocation, net cost for the government would be low. Even as programs like the fight against drugs understandably take precedence, trademark counterfeiting's deleterious effect on the well-being of consumers and the economy logically dictates that it should receive a greater than token enforcement priority from the government.<sup>257</sup>

The second reason that enforcement of the Act lags is that the United States Attorneys across the country may not be fully aware of the Act and the problems to which it is addressed.<sup>258</sup> Such ignorance will only grow worse without increased efforts from the United States Attorneys who are aware of the scope of the Act.<sup>259</sup> Third, the Federal Bureau of Investigation ("FBI") has adopted a policy that places emphasis "on criminal violations of the Trademark Counterfeiting Act where the extent of criminal activity is sizeable and widespread."<sup>260</sup> United States Attorneys' Offices around the country pursue "a similar policy."<sup>261</sup> Unless the counterfeiting involves organized crime rackets, or some other heinous activity, the authorities will probably not take an interest.<sup>262</sup> Therefore, localized, discrete, but equally dangerous counterfeiting problems probably go unprosecuted.

Contributing to this lapse in prosecution is the fact that both the FBI and the United States Attorneys' Offices<sup>263</sup> have a policy of encouraging trademark owners to conduct their own private investigations of counterfeiters.<sup>264</sup> This policy leads to the development

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<sup>257</sup> See *supra* notes 8-20 and accompanying text.

<sup>258</sup> Bikoff, *supra* note 89.

<sup>259</sup> If not unaware of the law, at the very least the lack of enforcement under the Act suggests that government law enforcement authorities in general underestimate the problem of trademark counterfeiting.

<sup>260</sup> *Id.* (quoting Donald S. Richards, FBI Criminal Investigative Division, Remarks before the International Anticounterfeiting Coalition, San Diego, California, May 29, 1986 (unpublished speech) [hereinafter Richards]); see also Conference, *supra* note 106, at 462.

<sup>261</sup> Richards, *supra* note 260.

<sup>262</sup> According to James L. Bikoff, past president of the International Anti-Counterfeiting Coalition, "You need to have something big, like organized crime or a tie to narcotics" in order to interest a United States Attorney in prosecuting a case under the Trademark Counterfeiting Act of 1984. Engardio, *supra* note 231, at 88 (quoting Bikoff).

<sup>263</sup> See Springut & Tucker, *supra* note 100, at 265. There are few criminal prosecutions under the Act because of the following:

[T]he various United States Attorneys' offices around the country in areas where this type of activity has historically been centered, e.g., New York, Los Angeles, Miami, generally have had to focus their attention and resources on higher priority matters. . . . Consequently, the trademark owner has been left primarily to its own devices to protect its business and trademarks and to rid the marketplace of counterfeits.

*Id.*

<sup>264</sup> Conference, *supra* note 106, at 462.

of fewer criminal cases and exposes consumers to a greater potential of being victimized by dangerous goods. To begin with, trademark owners seeking a criminal sanction must typically hire investigators to act as surrogate FBI agents,<sup>265</sup> conducting investigations of counterfeiters and handing the results over to the United States Attorney for prosecution.<sup>266</sup> Thus, criminal prosecutions often hinge on the competence of private investigators. But not every trademark owner can afford an extensive investigation, or the best private investigators. Trademark owners, moreover, probably stop short of funding an effective investigation when its cost<sup>267</sup> exceeds the loss to counterfeiting, or when they perceive a threat to the reputation of their goods from such activity.<sup>268</sup> In general, the private investigators and attorneys of trademark owners who actively pursue counterfeiters conceivably develop an expertise in detecting the presence of counterfeit goods in the marketplace. Once that detection is made, however, the FBI and the United States Attorney arguably have the superior training, equipment, experience, and authority, necessary to conduct the subsequent criminal investigations.<sup>269</sup>

The investigative skills of federal law enforcement authorities are particularly necessary when the counterfeiting involves sophisticated rings, and/or organized crime.<sup>270</sup> Criminals go unpunished

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<sup>265</sup> For instance, Melvin Weinberg, a former FBI employee and investigator for Vuitton & Fils, the French leather goods maker, in a six-year span reportedly conducted "1,500 raids for Vuitton and dozens of stings." Engardio, *supra* note 231, at 88. Stings involve posing as a potential buyer of counterfeit goods to gather evidence for a suit or prosecution. *Id.* He also reportedly developed a criminal case of tax evasion for the IRS in which two counterfeiters received prison sentences. *Id.* A handful of famous investigators who specialize in trademark counterfeiting, like Weinberg, are frequently quoted in the press. Undoubtedly not many trademark owners can afford the services of such an elite group of investigators, nor are there probably many other investigators with the same type of experience that Weinberg culled from the FBI; he helped put together the ABSCAM stings in 1980. *Id.*

<sup>266</sup> *Id.*; Bikoff, *supra* note 89 (describing the steps to take in providing information to the United States Attorneys' Offices).

<sup>267</sup> See *supra* notes 232-233 and accompanying text.

<sup>268</sup> Comment, *supra* note 117, at 704. Some trademark owners may not pursue counterfeiters because of a fear "that any adverse publicity regarding the proliferation of counterfeiting would cause the company's customers to switch to competing brands in order to avoid purchasing one of the copied products that might be inferior in quality." *Id.* at 704-05.

<sup>269</sup> The Trademark owners' attorneys and investigators can lend support to such investigations with information about trademarks or counterfeiters.

<sup>270</sup> "Penetrating such [counterfeiting] syndicates may mean taking on organized crime." Engardio, *supra* note 231, at 87; One attorney "ran across a stash of nitroglycerine, dynamite, and automatic rifles in the Great Smoky Mountains while probing a group selling phony H.J. Heinz Co. discount coupons." *Id.* at 86. James L. Bikoff, then president of the International Anti-Counterfeiting Association, in testimony to a House Sub-

when civil attorneys and private investigators of the trademark owners fail to detect either the source or the extent of a counterfeiting problem that the federal law enforcement agencies could have uncovered with their expertise. Thus, the government should play a more active role in the investigation of trademark counterfeiters, especially when the goods in question pose a danger to the public.

The possibility of losing the law's protection for their marks through inaction provides trademark owners with an incentive to protect their marks<sup>271</sup> with civil remedies that have some proven effectiveness.<sup>272</sup> It should be stressed, however, that encouraging government protection of trademarks through criminal prosecutions is not a method by which the trademark owner shifts his or her responsibility for protection to the government. Two commentators compared the burden faced by trademark owners when counterfeited with that faced by banks when robbed:

By comparison, no one supposes that merely because most banking institutions are prosperous, bank robbery and bank embezzlement . . . should be left to those bankers able to bring lawsuits against the culprits. On the contrary, it is universally recognized that there is a strong social interest in the public prosecution of such misconduct and that without government intervention, the social cost of misconduct would soon become insupportable.<sup>273</sup>

While the analogy between bank robbery and trademark counterfeiting is exaggerated, it underscores the need for government intervention in the fight against trademark counterfeiting. Such intervention is particularly necessary because a trademark counterfeiter, like any other criminal, is likely to ignore civil process, which relies on a certain amount of good faith between litigants.<sup>274</sup> The government has an obligation to intervene when civil remedies falter, and a criminal sanction would stem a significant harm to both consumers and trademark owners.

## V. CONCLUSION

Trademark counterfeiting is a problem that cuts at the very fabric of society. It threatens lives and jobs and the confidence we have in the goods we use. Criminal sanctions under the Trademark Counterfeiting Act of 1984 have made few inroads into the ravages of trademark counterfeiting. The Act itself provides the necessary

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committee, verified links between organized crime and several trademark counterfeiting industries. SUBCOMMITTEE, *supra* note 13, at 28.

<sup>271</sup> See *supra* note 11.

<sup>272</sup> See *supra* note 231.

<sup>273</sup> Rakoff & Wolff, *supra* note 20, at 164 n.44.

<sup>274</sup> *Id.* at 164.

tools to combat the problem, and the judicial response to those tools has been very favorable. Yet the government prosecutes very few cases under the Act, and alternative remedies, such as international efforts through government diplomacy, unilateral leverage, customs, and state laws, have proven inadequate or remain untested. Furthermore, civil remedies, particularly the *ex parte* seizure order, have demonstrated success, but their cost and the incongruity of civil remedies combating criminals hamper them. The government's reliance upon the trademark owner to investigate and impede counterfeiters has left the crime fighting to the victim, whose decision not to pursue civil remedies or whose general incompetence in investigating criminals exposes a gap in consumer protection. The FBI and United States Attorneys' Offices must close the gap with greater enforcement of criminal sanctions. Overall, government intervention through a consistent program of criminal investigation and prosecution of counterfeiters would provide the strongest deterrent to trademark counterfeiting in the market place and would offer the best assurance of consumer safety and economic progress. Thus, with incidents of dangerous counterfeit goods prevalent, and the cost to U.S. industry and the public so high, the FBI and the United States Attorneys' Offices should take a greater role in the fight against trademark counterfeiting.

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