Trademark Counterfeiting and Individual Purchaser Liability

Friday, November 11, 2011
Winner Winter 2011 Student Legal Writing Contest

Introduction

Trademark counterfeiting of luxury goods is pervasive in the United States. \[i\] Counterfeiting has resulted in the loss of over $200 billion in potential sales by United States businesses. \[ii\] The job market has also been affected by illegal counterfeiting, resulting in an estimated loss of 750,000 jobs. \[iii\] Current United States anti-counterfeiting laws attach liability to manufacturers and distributors of counterfeit trademarks. \[iv\] Under the current statute, anyone who uses a counterfeit mark “in connection with the sale...or distribution of goods or services” is subject to civil or criminal sanctions. \[v\] At this time, individual purchasers of counterfeit goods have not been prosecuted under trademark infringement laws. \[vi\] The purchase of these items by consumers aids the infringing activities of the sale, manufacture and distribution of counterfeit goods. \[vii\] The lack of case law prescribing liability for end purchasers of counterfeit goods reflects the public perception of counterfeiting as a victimless crime, causing the laws to have little or no effect on consumer demand for counterfeit goods. \[viii\]

This paper explores how the historically narrow interpretation of the Lanham Act by United States courts and the legislature has hampered government efforts to curb trademark counterfeiting by ignoring legal liability for consumer purchases of counterfeit goods and suggests a resolution. The paper is limited to the discussion of luxury goods such has designer handbags and other expensive accessory items. Many other types of counterfeit goods have statutes which grant more protection to the companies when infringement occurs, specifically pharmaceuticals and food products. \[ix\] Trademark owners who trade in luxury goods are afforded no special protections. \[x\] Because counterfeit luxury items are not prone to causing serious bodily injury or death, purchasing these items appears to consumers to be a victimless crime. \[xi\] It is unlikely that consumers will stop purchasing these goods on their own without a legal deterrent.

A 2003 U.S. Customs and Border Protection report found that luxury goods make up approximately 36% of counterfeit goods imported into the United States from foreign countries. \[xii\] This number is significant because the United States government has found a direct link between counterfeit trademark peddlers and organized crime and terrorism. \[xiii\]

The majority of cases brought against counterfeiters of luxury goods are prosecuted by private companies who hold the registration for the trademark at issue. \[xiv\] Under the current law, individual purchasers of counterfeit goods have not been prosecuted criminally or civilly. Consumers who purchase these goods should instead be held liable for the aiding and abetting of the counterfeit trademark trade through the purchase counterfeit goods. The flexibility to prosecute all members of the counterfeiting chain would lead to a greater deterrent.

Further, because trademark counterfeiting is a worldwide business, representing approximately 5-7 percent of the world’s trade, the U.S. should adopt a more cohesive approach to liability by modeling U.S. trademark counterfeiting laws after those of countries who are also seriously affected by trademark counterfeiting and have been able to efficiently regulate the counterfeit market. \[xv\]

I. Background Information

\[page\]
Federal trademark protection laws have endured a slow and lengthy process before attaining a level of protection recognizable by today's standards.\[xvi\] The first trademark law passed by Congress in 1870, An Act to Revise, Consolidate and Amend the Statutes Relating to Patents and Copyrights, reflected Congress's uncertainty as to whether the legislative body had authority to regulate trademark protection.\[xvii\] Prior to the passing of the Act in 1870, trademark protection fell exclusively under state authority.\[xviii\] The Act was amended in 1876 to include criminal sanctions as well as civil sanctions previously included under the 1870 Act.\[xix\] Under the revised statute, infringers were liable for up to $1,000 in fines and possible prison terms not to exceed two years.\[xx\] In 1879, the U.S. Supreme Court held that the Trademark Act was unconstitutional, determining that the Patent and Copyright Clause of the Constitution\[xxi\] did not grant Congress authority to regulate trademarks.\[xxii\] Trademark holders were then forced to rely solely on common law trademark protection.\[xxiii\]

In 1946, Congress passed the Lanham Act, a comprehensive federal system for regulating trademark protection and infringement.\[xxiv\] The Lanham Act only provides for civil remedies for trademark infringement\[xxv\] and was not created with counterfeiting in mind.\[xxvi\] While the Act permits the courts to enjoin future sales, manufacturing or distributing of counterfeit goods, the regulations put in place under the Act itself generally do not deter counterfeiting.\[xxvii\]

### A. Trademark Counterfeiting Laws

It was not until the Trademark Counterfeiting Act of 1984 that Congress permitted criminal sanctions against anyone who knowingly dealt in counterfeit goods.\[xxviii\] This Act was brought about by a group of registered trademark holders under the umbrella organization International Anti-Counterfeiting Coalition, which pushed for stronger sanctions for counterfeiters.\[xxix\] The Act authorized 
ex parte
seizures of counterfeit goods and punished first time traffickers with fines up to $250,000 and a maximum of five years in prison.\[xxx\] Chronic infringers could be fined up to $1,000,000 and criminal sanctions for repeat offenders carried with them a 15 year jail sentence.\[xxxi\]

Again in 1996, the International Anti-Counterfeiting Coalition successfully lobbied for the Anti-Counterfeiting Consumer Protection Act of 1996 which granted the U.S. Customs Service broader authority to regulate counterfeiting.\[xxxii\] Section 1136 of the Anti-Counterfeiting Consumer Protection Act also imposed fined of up to $1,000,000 for each counterfeit mark for intentional infringement cases.\[xxxiii\] Finally, section 1136 mandated counterfeiting as a predicate act under the Racketeering Influence and Corrupt Organizations Act (RICO).\[xxxiv\]

Under the Lanham Act, a likelihood of confusion is presumed in counterfeiting cases.\[xxxv\] However, the alleged counterfeiter may raise any other defenses under the Act, including nominative fair use.\[xxxvi\] Finally in 2006, Congress passed the Stop Counterfeiting in Manufactured Goods Act, which further increased criminal penalties for trafficking.\[xxxvii\] Prior to the Stop Counterfeiting in Manufactured Goods Act, counterfeited patches, if separate from the generic good themselves during importation into the United States, did not trigger liability under the current counterfeiting laws.\[xxxviii\] Finally, in 2008, Congress passed the Prioritizing Resources and Organization for Intellectual Property Act of 2008, which broadened liability to include those who, “with specific intent, provide ‘goods or services necessary’ to the counterfeiting.”\[xxxix\]

### B. Statutory Anti-Counterfeiting Laws

Under § 1116(d)(1)(B), counterfeit marks are defined as either the “counterfeit of a mark that is registered” with the United States Patent and Trademark Office for goods or services sold by the trademark holder without regard to the counterfeiter’s knowledge of the actual registration of the mark or “a spurious designation that is identical with, or substantially indistinguishable from” a registered or common law mark protected under the Lanham Act.\[xli\]

Counterfeitters in the United States are subject to criminal and civil sanctions under contemporary anti-counterfeiting laws.\[xlii\] Section 2320 defines a counterfeit mark as a false mark connected to generic goods otherwise identical to goods with registered trademarks which are used in commerce and likely to cause confusion among consumers.\[xliii\] Under § 2320, criminal penalties are available for anyone who “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.”\[xliv\] The same penalties are available to anyone who traffics counterfeit marks, which include such items as labels and packaging separate from the goods themselves.\[xlv\] Criminal sanctions include fines up to $2,000,000 and 10 years in prison.\[xlvi\] Repeat offenders face fines up to $5,000,000 and 20 years in prison.\[xlvii\]

The most recent amendment to the 1984 Act, the Prioritizing Resources and Organization for Intellectual Property Act of 2008, further increased criminal sanctions for counterfeiters who knew or should have known the counterfeited good would cause serious bodily injury or death.\[xlviii\] The amendment further imposed penalties for
Under the Lanham Act, registered mark owners may recover monetary damages against infringers in the form of (1) profits incurred by the counterfeiter, (2) monetary damages caused to the mark owner and (3) litigation costs. Civil sanctions are based in equity and are not awarded to punish the infringer. However, the Lanham Act provides special provisions for civil remedies for counterfeiting. The Act permits the court to issue “judgment for three times such profits or damages, whichever amount is greater, together with a reasonable attorney’s fee if the elements for counterfeit infringement are met.”

C. Ramifications of Trademark Counterfeiting

The enforcement of counterfeiting laws has been slowed by the public misperception that trademark counterfeiting is a victimless crime. Trademark counterfeiting has an economic impact on the United States market and has been linked to organized crime.

A substantial portion of the United States international market is composed of intellectual property licensing and royalties. In 2001 an International Chamber of Commerce Commercial Crime Services Division report found a global monetary impact of $350 billion accrued from the sale of counterfeit goods. Because of the United States' dominance in the international intellectual property arena, a majority of the economic harm resulting from trademark counterfeiting is placed on United States companies.

In 2003, 6500 imported counterfeit items were seized by the United States government, amounting to over $94 million. This loss does not include other economic factors impacted by trademark counterfeiting, such as the effect on the mark owner’s reputation, resulting in monetary damage, or the cost to the mark owner to prosecute counterfeiters.

Congressional and government agency lobbying has brought attention to the link between trademark counterfeiting and organized crime both domestically and internationally. This sentiment was codified in the Anti-Counterfeiting Consumer Protection Act of 1996 by including trademark counterfeiting as a “predicate act” under the Racketeer Influenced and Corrupt Organizations Act (RICO).

II. Statutory End Purchaser Liability

A. Civil Liability Under § 1117(b)

The current provisions in place to protect mark owners against counterfeiters are ineffective. Because the Lanham Act only assigns liability if the counterfeit goods are used in commerce, United States counterfeiting laws target only individuals related to trafficking the goods through manufacture, sale and distribution. Section 1117(b) requires four elements to be met before civil liability can be assigned for counterfeit trademark infringement and before a judgment can be entered for monetary awards. The necessary elements are that (1) intentionally using in commerce a ‘counterfeit’ mark; (2) knowing that the mark was a counterfeit; (3) in connection with the sale, offering for sale or distribution of goods or services; (4) which use is likely to cause confusion, mistake or to deceive.

Historically, counterfeiting liability has ended with the manufacturers and distributors of counterfeit trademarks and not with individual purchasers. The basis for this trend can be found in the judicial interpretation of the third element of counterfeiting under the Lanham Act, “in connection with the sale, offering for sale or distribution of goods or services.” At this time, no individual purchasers of counterfeit trademarked goods have been brought before a court in the United States. Instead, manufacturers and distributors have shouldered the burden of liability and criminal sanctions. In fact, the language of the International Anti-Counterfeiting Coalition does not mention that purchasing counterfeit goods is illegal; instead, their deterrence of individual purchases of counterfeit goods is based in the claim that the purchase “supports illegal activity.” Instead, the International Anti-Counterfeiting Coalition’s website only states that the act of counterfeiting items itself is illegal. While curbing the counterfeiting problem at its root is a successful way to deter trademark counterfeiting, it may not be the most effective way. Holding individual consumers civilly liable for both purchasing counterfeit goods and aiding and abetting in the production and manufacturing of such goods may be the best way to stop the supply and demand cycle through deterrence.

1. Intentional Use of a Counterfeit Mark in Commerce

To meet the first element under § 1117(b), the end-consumer purchaser must “intentionally use[e] in commerce a ‘counterfeit’ mark.” This element is satisfied at the point of sale. Based on the price and sale location, customers are generally aware that they are not purchasing the bona fide luxury good. The intent of the end-consumer purchase is found in the act of purchasing an item at a price that does not correlate with either the
reputation of the company or the sale price found at authorized retailers.

2. Knowledge of the Counterfeit Mark

The second required element under § 1117(b) requires that the defendant had knowledge of the counterfeit mark.\[lxxiii\] This element can be met by individual purchasers in two ways, which are both shared with the intent requirement under the first element of § 1117(b).\[lxxiv\] The first is based on the price of the counterfeit goods. The reason people purchase counterfeit goods is that these goods are considerably cheaper than the authentic goods.\[lxxv\] The second way the element can be met is the location of the purchase. Authentic goods are sold at authorized retailers, such as department stores. Counterfeit goods are sold on the street, in open air markets or through unauthorized retail shops.\[lxxvi\]

3. Connected to the Sale of Goods

The third element requires that the counterfeited goods are exchanged “in connection with the sale, offering for sale or distribution of goods or services.”\[lxxvii\] This is the pivotal element regarding individual purchaser liability. This element refers to the mark itself being used in commerce.\[lxxviii\] In order to satisfy the first element of § 1117(b), the mark at issue will have already been established as counterfeit.\[lxxix\] Therefore, under this element it must be established that the counterfeit mark was used in commerce.

Purchasing a single or small number of counterfeit items should be categorized as “in connection with the sale... of goods or services.”\[lxxx\] This section of the Lanham Act requires a mark must be used in commerce in order to trigger trademark laws.\[lxxxi\] Trademark law defines use in commerce as the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this chapter, a mark shall be deemed to be in use in commerce -

(1) on goods when - (A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and (B) the goods are sold or transported in commerce, and (2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services.\[lxxxii\]

The interpretation of § 1117(b) to include the purchase of goods is predicated interpreting § 1127 to include the purchase of goods when referring to goods that are “sold or transported in commerce.”\[lxxxiii\] Over the years, case law has broadened the application of the use in commerce requirement to extend to non-profit organizations.\[lxxxiv\] The reasoning for this is to accommodate Congress’s intent behind trademark regulatory authority falling under the Commerce Clause and not merely to justify the protection of mark owners’ profits.\[lxxxv\] It is possible then to extend the interpretation of use in commerce under § 1127 to include end purchaser activities as constituting use in commerce since the sale, manufacturing and distribution of trademarked goods would be without purpose but for an end purchaser. If end purchaser activity is interpreted as commercial for the purposes of § 1127, then this activity will also satisfy § 1117(b) requiring counterfeit trade to be “in connection with the sale... of goods.”\[lxxxvi\]

The congressional intent behind many of the amended anti-counterfeiting statutes has been to provide prosecutors and mark owners with the “essential tools for combating this insidious and rapidly growing form of commercial fraud.”\[lxxxvii\] Congressional displeasure over the rise in trademark counterfeiting has been also been exemplified in the Anti-Counterfeiting Consumer Protection Act of 1996 where Congress statutorily recognized, through increased liability and criminal sanctions, the connection between counterfeiting and organized crime.\[lxxxviii\] Through successive anti-counterfeiting acts, Congress has shown its strong desire to curb the production and distribution of counterfeit goods.

The statutory interpretation of § 1117(b) should include liability for individual purchasers. In Consumer Prod. Safety Comm’n v. GTE Sylvania, Inc., the Supreme Court emphasized that “the starting point for interpreting a statute is the language of the statute itself.”\[lxxxix\] The Court further explained that “absent a clearly expressed legislative intention to the contrary, that language must ordinarily be regarded as conclusive.”\[xc\]

There is nothing to show that Congress intended § 1117(b) to protect individual purchasers of counterfeit trademarked goods from liability. The third element of counterfeit trademark infringement supports this interpretation. The statute provides for civil liability for intentional use of a counterfeit mark “in connection with the sale, offering for sale or distribution of goods or services.”\[xc\] By including the language “in connection with the sale,” Congress did not expressly limit liability to only those defendants who sell or distribute counterfeit goods\[xcii\] While the court system has seen the prosecution of manufacturers and traffickers of counterfeit...
Creating legal deterrents for consumers against purchasing these goods would only help to curb the industry as a whole. While the substantial economic harm to trademark owners may not be the result of each individual purchaser, the harm comes about by the purchasers’ aggregated activities. Therefore, in following congressional intent to stop the flow of counterfeit goods in the marketplace, individual consumers should be liable under § 1117(b).

4. Resulting in Confusion or Deception

The final element required to find liability under § 1117(b) is that the counterfeit product’s “use is likely to cause confusion, mistake or to deceive.” These counterfeited products exist specifically to “cause confusion, mistake or to deceive.” The products themselves are meant by producers to mimic real products and trademarks. While there may be some consumers who are unaware of the similarities between the counterfeit and the legitimate goods and trademarks, most consumers are purchasing these goods because they look similar to the more expensive legitimate products.

Even if the confusion and deception is not occurring at the point of sale between the consumer and the distributor, post-purchase confusion is a concern which also triggers trademark infringement. Here, the confusion and deception occurs not by the consumer, but instead by passersby who see the counterfeit items and are not able to distinguish between the real and the fake items. This confusion goes to the heart of trademark protection. If third parties see fake items and think they are products of the trademark holder instead of a counterfeiter, the reputation of trademark holders may come into question.

B. International Approaches

The United States is not alone in the trademark counterfeit problem. A number of other countries have instituted rigorous anti-counterfeiting laws in order to curb this worldwide problem. France and Italy are considered two of the most stringent advocates of anti-counterfeiting laws. These two countries’ anti-counterfeiting laws are instructive for determining statutory liability for end purchasers of trademark counterfeit goods in the United States.

France has instituted law prohibiting the possession of counterfeit goods. Under the French Intellectual Property Code, a person may be fined up to double the retail value of the counterfeit good. In 1994, the French Intellectual Property Code was amended to prosecute individuals for bad faith possession of counterfeit goods. Similar to § 1117(b) of the Lanham Act, France’s intellectual property statute does not issue criminal sanctions for the possession of counterfeit goods by an end purchaser. The statutory fines act as a deterrent to the public.

In Italy, the evolution of intellectual property law has led to the implementation of end purchase liability. Under the Italian Criminal Code, individuals may be liable for the crime of handling when “with the purpose of procuring a profit for oneself or for others [anyone who] receives or conceals money or objects originating from any crime.” This section of the Code was later interpreted by the courts to include the handling of counterfeit goods. Regarding counterfeit goods, the courts determined that the ‘for profit’ provision of Article 648 is met by measuring the difference in retail value between the counterfeit and real good at issue. In 2005, Italy implemented a statute specifically targeting end purchasers of counterfeit goods. This relatively unique statute fines violators up to 10,000€ and confiscates the infringing goods at issue.

Through the enactment of a special provision that focuses on the liability on end purchasers, the government is sending the public a message that anti-counterfeiting rules are serious and will be enforced. In order to prevent the continued harm caused to mark owners, the United States should adopt a similar provision which targets end purchasers specifically in order to change the public perception of counterfeiting as a harmless crime.

II. Upholding the Purposes Behind Trademark Law

The original purpose of trademark law was to protect the consumer from unfamiliar goods. Over time, the purpose behind trademark law has been extended to protect the reputation of the companies producing the goods. The dual purpose of trademark law is corrupted when end purchasers of counterfeit goods escape liability. Trademark law in this area is most affected by post consumer confusion. While it is likely that the end purchasers of the goods are aware of the differences between the counterfeit and the real goods at the point of sale, there is nothing to indicate that passersby who see the end purchasers with the counterfeit items will not result in a likelihood of confusion for the third party. This likelihood of confusion may result in damage to the reputation of the mark owner and the company who produces the real goods. Further, there may be some consumers who are unable to distinguish the counterfeit good from the real good at the point of sale and thus the 

\[page\]
intention behind trademark law to protect these consumers is lost.

Section II demonstrates the need for the statutory interpretation of “use in commerce” under § 1127 to continue to broaden in order to include the act of purchasing items in the marketplace. The extension of the definition would itself be narrow and apply only to end purchasers of counterfeit goods. If the act of purchasing counterfeit goods by individual consumers constitutes a use in commerce under § 1127, then this act will meet all of the required elements under 1117(b) in order to proscribe civil liability for trademark counterfeiting. The element at issue under § 1117(b) is whether the end purchase of counterfeit luxury goods constitutes a connection with the sale of the goods. It does. The authority to regulate trademarks is found in the Interstate Commerce Clause of the Constitution. It is easy to suppose that an end purchaser of a counterfeit good may purchase an item on vacation in another city or country, triggering interstate commerce. Even if the counterfeit item is purchased within the same state as the residence of the purchaser, the counterfeit goods trade is an international business and the item was probably not manufactured in that exact state. Since the end purchase of the counterfeit goods drives the counterfeiting market, end purchases must be connected to the sale of the goods themselves.

Due to the overwhelming reach of the counterfeit trademark market and the difficulty of enforcement based on the trade’s underground status, there is a need to implement and enforce civil liability for end consumer purchases of these goods. Other countries have already put laws in place to attach liability to consumers, which through heavy fines also acts as a deterrent. The United States should follow the examples of France and Italy and interpret § 1117(b) to account for consumers who purchase luxury goods bearing a counterfeit trademark without the intention of reselling the goods.

---


[iv] See generally, Rolex Watch, USA, Inc. v. Michel Co., 179 F.3d 704 (9th Cir. 1999) (holding that disassembly and reassembly in order to include diamond enhancements on imitation Rolex watches to resemble genuine Rolex watches constitutes counterfeiting); Chanel, Inc. v. Italian Activewear of Florida, Inc., 931 F.2d 1472 (11th Cir. 1991) (holding that purchasing counterfeit luxury handbags for resale constitutes trademark counterfeiting).


[x] Id.

[xi] Chong, supra note 8.


[xiii] The intent to connect trademark counterfeiting and organized crime can be found in the Anti-Counterfeiting Consumer Protection Act of 1996 which makes counterfeiting a predicate act to the RICO Act. Anti-Counterfeiting Consumer Protection Act of 1996, Pub. L. 104-153 (1996). In 2005 Senator Collins chaired Senate hearings to...

[xiv] Silverman, supra note 6, at 194-96.


[xvii] Id.

[xviii] Id.


[xx] Id.


[xxv] Id. at §§ 1114-1126.


[xxxi] § 2320(a)


[xxxv] 4 Callmann on Unfair Comp., Tr. & Mono. § 22:34 (4th Ed.).

[xxxvi] Id.


[xxxix] 4 Callmann on Unfair Comp., Tr. & Mono. § 22:34 (4th Ed.).


[xlii] § 2320.

[xliii] The required elements under the criminal statute for counterfeited goods are that the alleged counterfeiter “(1) trafficked or attempted to traffic in goods or services, (2) did so intentionally, (3) used a counterfeit mark on
or in connection with such goods or services and (4) knew the mark was counterfeit.” § 2320; U.S. v. Sultan, 115 F.3d 321 (5th Cir. 1997).


[lxv]Id.

[lxvi]Id.

[lxvii]Id.

[lxviii]Items targeted under this Amendment include pharmaceuticals and auto parts. Id.

[lxix]Id.


[ii]4 Callmann on Unfair Comp., Tr. & Mono. § 30:88 (4th Ed.).


[iii]Id.


[liii]Id. at § 1117(b).

[liv]4 Callmann on Unfair Comp., Tr. & Mono. § 25:15 (4th Ed.).


[lvii]Id.


The price and quality of counterfeit luxury items compared to the real things “suggests that many purchasers of infringing items would not, or could not, have purchased the infringed item in the absence of the availability of the infringing item.” U.S. Sentencing Comm’n, Intellectual Property Amendments: 2006: Policy Development Team Report, 6 (2000).

Section 1127 defines a trademark as “a symbol [or term] used by a person in commerce to indicate the source of the goods and to distinguish them from the goods sold or made by others.” Id. at § 1127.


Silverman, supra note 6, at 185.


Silverman, supra note 6, at 186.

Silverman, supra note 6.

Italian Decree-Law No. 80/50 of May 14, 2005 (2005).

Italian Decree-Law No. 80/50.


Id.

Chong, supra note 8.


§§ 1127; 1117(b).

§ 1117(b).


© Copyright 2011 Lisa Lyne Cunningham

Source URL: https://www.natlawreview.com/article/trademark-counterfeiting-and-individual-purchaser-liability