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## Commercial Trademark Counterfeiting in the United States, the Third World and Beyond: American and International Attempts to Stem the Tide

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# COMMERCIAL TRADEMARK COUNTERFEITING IN THE UNITED STATES, THE THIRD WORLD AND BEYOND: AMERICAN AND INTERNATIONAL ATTEMPTS TO STEM THE TIDE

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## I. INTRODUCTION

Commercial<sup>1</sup> trademark<sup>2</sup> counterfeiting<sup>3</sup> in the United States is a problem which threatens to go out of control. Largely ignored by the general press and dealt with only

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<sup>1</sup> "Commercial" is used in this article to indicate those products placed in the stream of foreign or domestic commerce. It is only after such a placement that the harms of counterfeiting occur.

<sup>2</sup> There are many definitions of "trademark" — common law, statutory, ordinary usage, etc. — and the proper meaning of the word at a given time depends on the context used. If, during this article, the reader is in doubt as to the exact meaning of "trademark" at any given time, the following definition should almost always apply:

Any mark, word, letter, number, design, picture or combination thereof in any form or arrangement, which (a) is adopted and used by a person to denominate goods which he marks and; (b) is affixed to the goods and (c) is not ... a common or generic name for the goods or a picture of them, or a geographical, personal or corporate or other association name, or a design descriptive of the goods or their quality, ingredients, properties or functions and; (d) the use of which is prohibited neither by legislative enactment nor an otherwise defined public policy." RESTATEMENT OF TORTS § 715 (1954).

<sup>3</sup> Again, there is much confusion surrounding the definition of the word "counterfeiting" and it also must be defined contextually. Generally, in this article "counterfeiting" refers to the act of

fragmentarily by specialized publications, the modern counterfeiter remains shrouded behind antiquated myths and consumer misconceptions. The result is only a few voices crying out for relief from the counterfeiter's fraud. Unfortunately, ignoring the problem has not made it go away. Dozens of people across the world have been killed by defective counterfeit products, hundreds of thousands of jobs in the United States have been lost to foreign counterfeit operations overseas, billions of dollars in revenue have been lost by legitimate U.S. manufacturers, and millions of consumers have been defrauded by counterfeit products, but there has been very little public action against the problem. It has only recently become a federal crime to even sell a counterfeit product.<sup>4</sup>

Current federal, state, and local legislation against counterfeiters acts as an earthen dam attempting to restrain a tidal wave. Officials entrusted by the public with the duty of providing protection from counterfeit products freely admit they are overwhelmed by the flood of imports arriving daily.<sup>5</sup> Although it is widely accepted that trademark counterfeiting is an international problem,<sup>6</sup> there is no international agreement that relates primarily to counterfeiting.<sup>7</sup> Federal legislation<sup>8</sup> and international treaties<sup>9</sup> which would attempt to act on the problem have until only very recently been languishing in committees unable to agree on how to solve the problem or if there even is a problem.<sup>10</sup> Most importantly, during this period of political indecisiveness, commercial trademark coun-

attempting to deceive consumers into purchasing inferior merchandise by affixing to it counterfeit trademarks of quality brand manufacturers. Unlike other types of trademark infringement, which may involve the unintentional use of merely confusing or similar marks, commercial counterfeiting involves the intentional duplication (more or less) of the trademark owner's mark. Although there is much potential overlap in terms, such trade practices as "gray market sales" (the selling of goods bearing an authorized trademark but sold in contravention of a commercial arrangement), "parallel sales" (the legal production of trademarked goods by a licensee which are sold in markets restricted by the licensing agreement), "diverted sales" (goods produced legally with legitimate trademarks by licensees who deliberately overproduce and let the surplus go unreported to the trademark owner), "passing off" (the simulation of a trademark or packaging when the trademark is not identical nor likely to cause consumer confusion), or other forms of unfair competition such as the unauthorized use of a trademark on a nonsimilar product, copyright, or patent infringement, are not covered by the use of the word "counterfeit" unless the contextual situation suggests otherwise. Nor, obviously, does the word mean the counterfeiting of money or money substitutes (credit cards).

<sup>4</sup> Rakoff and Wolff, *Commercial Counterfeiting and the Proposed Trademark Counterfeiting Act*, 20 AM. CRIM. L. REV. 147 (1982) [hereinafter cited as Rakoff and Wolff].

<sup>5</sup> See, e.g., *The Trademark Counterfeiting Act of 1982: Hearings on S. 2428 Before the Senate Judiciary Subcomm. on Criminal Law*, 97th Cong., 2d Sess. 40-46 (1982) (testimony of Simon P. Gourdine, Commissioner, New York City Department of Consumer Affairs) [hereinafter cited as *Hearings on S. 2428*].

<sup>6</sup> Walker, *The Pirating of Brand Goods*, N.Y. Times, Mar. 3, 1981, at D2.

<sup>7</sup> Walker, *A Program to Combat International Commercial Counterfeiting*, 70 TRADEMARK REP. 118 (1981).

<sup>8</sup> The recently enacted Trademark Counterfeiting Act of 1983 is the only current legislation that directly addresses the counterfeiting problem. See *infra* text accompanying notes 203-47.

<sup>9</sup> The Anticounterfeiting Code under the General Agreement on Tariffs and Trade, formally titled "Agreement on Measures to Discourage the Importation of Counterfeit Goods," is the predominant proposed international attempt to address counterfeiting. See *infra* text accompanying notes 289-95.

<sup>10</sup> See, e.g., *The Trademark Counterfeiting Act of 1983: Hearings on S. 875 Before the Senate Judiciary Subcomm. on Criminal Law*, 98th Cong., 1st Sess. 15-21 (1983) (testimony of Edward T. Borda, President, Association of General Merchandise Chains, Inc.) [hereinafter cited as *Hearings on S. 875*].

terfeiting has become one of the world's few major growth industries,<sup>11</sup> to the detriment of both the industrialized and Third World countries.<sup>12</sup>

## II. THE IMPACT AND MYTHS OF THE COUNTERFEITER

### A. *The History of Trademark Counterfeiting*

The purpose of a trademark is to place in the public's mind, through the use of a distinctive name, logo, or mark, an expectation of quality that by itself will distinguish the trademarked product or service from all others.<sup>13</sup> The use of trademarks, exclusive to particular producers, is not a recent development; the ancient Romans placed trident shaped marks on the caps of their wine amphoras.<sup>14</sup> The English Parliament in 1266 required bakers to put an exclusive mark upon their bread to identify its source.<sup>15</sup> Given human nature and the inflated prices consumers are willing to pay for trademarked goods on the expectation of receiving a higher quality product, it was inevitable that the efforts of producers to identify their products would be undermined by those producing inferior products but wishing to make an easy profit on the reputation of others. After Roman wine became the epitome of fine drink throughout the Empire and beyond, the merchants of Gaul began scratching the Roman trident trademark distinguishing the famous wines of Campania onto jugs of their mediocre wine.<sup>16</sup>

The increasing use and dependence of producers on trademarks since the Industrial Revolution has always been followed by a corresponding increase in counterfeiting. For example, in the United States the explosive growth of the national economy immediately after the Civil War led to an increased dependence on national trademarks registered under the Trademark Act of 1870. This economic growth was accompanied by a nationwide increase in counterfeiting so dramatic that the Act was amended in 1876 to include criminal sanctions.<sup>17</sup>

Conditions were ideal for counterfeiting immediately after World War II. In the first three decades of this century, designer labels had begun to appear on almost every product imaginable. The use of designer labels was prompted, in part, by an increase in product advertisement. Many of these products were unavailable during World War II and demand for them failed to slacken during the war. This enormous public need could simply not be filled by legitimate producers at the end of the war. Counterfeiters moved in to take up the slack.<sup>18</sup> France, long the leader in luxury goods and fashion trends, was

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<sup>11</sup> *Hearings on S. 2428, supra* note 5, at 1.

<sup>12</sup> The term "Third World" means various things to different people. Greene, *Towards a Definition of the Term Third World*, 1 B.C. THIRD WORLD L.J. 13 (1980). In this article, the term Third World will refer to those undeveloped countries of the world, in Asia, Africa, or in the Americas that are not politically aligned with the Communist or non-Communist nations, and those people, while not particularly members of Third World countries as defined above, collectively identified with the ethnic background or economic underdevelopment of those in such nations.

<sup>13</sup> It is the value of this consumer expectation that gives the product its intrinsic or economic worth, not the fact that the product has been labeled with a trademark guaranteed to be exclusive by the manufacturer.

<sup>14</sup> Paster, *Trademarks — Their Early History*, 59 TRADEMARK REP. 551, 554 (1969).

<sup>15</sup> Kaikati and LaGarce, *Beware of International Brand Piracy*, HARV. BUS. REV., Mar.-Apr. 1980, at 52 [hereinafter cited as Kaikati and LaGarce].

<sup>16</sup> Lewis, *A Show of Fraud*, Int'l Herald Trib., Apr. 13, 1979, at 14.

<sup>17</sup> 4 CONG. REC. 4775 (1876).

<sup>18</sup> Kaikati and LaGarce, *supra* note 15, at 52.

the first nation to suffer the brunt of full-scale modern counterfeiting in the Post-World War II era. In 1954, the besieged French brand name producers formed the *Comite Colbomit* to protect their goods against counterfeiters.<sup>19</sup> In contrast, American manufacturers did not form the International Anticounterfeiting Coalition until April 1978.<sup>20</sup>

Since 1945, two factors have helped the counterfeiter expand his markets and profits: the increased internationalization of the world economy, and the development of duplicating technologies. The advent of worldwide communications and the increased business activity of multinational corporations has resulted in the international recognition of, and desire for, specific brand names.<sup>21</sup> This growing international consumer interest in the status value of purchasing designer products has resulted, for example, in counterfeiters putting fake Cartier labels on book jackets, dresses, and pencils, products that Cartier itself does not produce.<sup>22</sup> In addition, the internationalization of the operations of legitimate manufacturers has, for economic reasons,<sup>23</sup> prompted counterfeiters to follow suit. This has further complicated jurisdictional questions for the former group and increased the efficiency of the latter.

The increased availability and precision of modern duplicating technologies allows the counterfeiter to make *exact* copies of consumer products and trademark labels. Sharper images in offset printing, for example, have made it possible for almost anyone to duplicate product labels.<sup>24</sup> Raymond Fink, the Assistant Secretary and attorney for the Gates Rubber Company, a worldwide supplier of automobile parts, has publicly stated that "some of the counterfeit fan belts made in Taiwan come in packages that are so identical [to the real packaging] that it wasn't until we steamed [a] seam open that we saw a difference."<sup>25</sup> Further advances in duplicating technologies can only aid the counterfeiter in deceiving the public.<sup>26</sup>

### B. *The Myths Protecting the Counterfeiter*

An examination of the trademark counterfeiting problem will dispel three major myths which serve to protect the counterfeiter from the mobilization of public opinion. First and foremost is the consumer misconception that only expensive, designer-name articles are counterfeited. To this way of thinking, the counterfeiting problem is no more serious than buying a watch that does not work or a pair of jeans that prematurely fall apart. The second myth is that the counterfeiter indirectly benefits the public by providing expensive looking but low cost items which allow the less wealthy to experience the lifestyle of the rich. The third myth is that counterfeiters run essentially "mom and pop"-scale businesses which hurt very few people and provide employment for only a few, relatively harmless, crooks.

Each myth will be examined in turn but all have one fact in common: they each

<sup>19</sup> *Id.* at 53.

<sup>20</sup> Rakoff and Wolff, *supra* note 4, at 147.

<sup>21</sup> Conlon, *Commercial Product Counterfeiting: An Overview*, in 1 A PRACTICAL APPROACH TO PATENTS, TRADEMARKS AND COPYRIGHTS 273, 274-75 (1981) *cited in* Rakoff and Wolff, *supra* note 4, at 148.

<sup>22</sup> *Id.*

<sup>23</sup> Such factors include economies of scale, mass production facilities, national transportation networks, wage differentials, anti-union legislation, and tariff and non-tariff barriers.

<sup>24</sup> Kaikati and LaGarce, *supra* note 15, at 54.

<sup>25</sup> Beach, *Fighting Copycat Products*, USA Today, Jan. 30, 1984, at B1.

<sup>26</sup> Kaikati and LaGarce, *supra* note 15, at 54.

present a view of counterfeiting which is decades old. Though they may have provided an accurate description of counterfeiting in 1945, they do not today. These consumer misconceptions are not limited to any nation or any class. They are perpetuated by anecdotal personal experiences with counterfeits, apathy on the part of the media toward the problem, and the public's misperception of the industry in general.<sup>27</sup> In the next section, each of the three myths will be discussed in detail.

#### 1. The First Myth: "It's only luxury items."

The association between counterfeiting and luxury items is long and well-established. Traditionally, the goods most often targeted by counterfeiters are consumer goods with strong brand-name identification and high price markups based on the brand name, such as fashion apparel, jewelry, watches, records, and tapes.<sup>28</sup> As mentioned earlier, France, the international center of luxury items in 1945, was the first nation to be plagued by the modern counterfeiter. The production of these goods tended to be labor-intensive, allowing free and inexpensive entrance into the market.<sup>29</sup> High fashion articles are still an attractive target for counterfeiters, as are other, though more mundane, "status" articles. For example, the chances of purchasing a counterfeit tape or record is now estimated to be one in five, a counterfeit pair of sunglasses one in four, and a counterfeit Cartier watch even higher.<sup>30</sup> In fact, more counterfeit Cartier watches are sold in the United States alone than are actually produced by Cartier for worldwide distribution.<sup>31</sup>

Unfortunately, many counterfeiters attracted by the high profit and limited risk associated with counterfeiting, have expanded into a greater variety of consumer and industrial goods, including capital-intensive goods such as computer hardware, automobile parts, and pharmaceutical drugs. The following examples illustrate the scope and depth of their activities:

— The Bell Helicopter Company attributes several fatal crashes to counterfeited rotor gears not manufactured to proper stress tolerances and a British bus manufacturer traced a series of fatal brake failures to counterfeit brake drums improperly cast in Taiwan.<sup>32</sup>

— In February 1977, the Federal Aviation Administration (FAA) discovered and ordered the immediate removal of counterfeit "Boeing" engine fire detection and control systems on 100 Boeing 737's. Several companies had marketed the systems with fake "Boeing" labels and serial numbers, leading their airline customers to believe the parts had been certified by FAA representatives as safe. In fact, the systems had not been approved, and when the FAA and Boeing engineers examined the counterfeit products they discovered poor workmanship, low-quality materials, and inadequate safety standards.<sup>33</sup>

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<sup>27</sup> Frank, *Do You Know What You Are Buying?*, Saturday Evening Post, July 9, 1955, at 28.

<sup>28</sup> *The Effects of Foreign Product Counterfeiting on U.S. Industry*, in THE UNITED STATES INTERNATIONAL TRADE COMMISSION PUBLICATION 1479, Jan. 1984, at ix [hereinafter cited as USITC PUBLICATION 1479].

<sup>29</sup> *Id.*

<sup>30</sup> *Hearings on S. 2428*, *supra* note 5, at 35.

<sup>31</sup> *Phony Cartiers Take a Licking*, L.A. Examiner (evening edition), Oct. 14, 1981, at A8.

<sup>32</sup> CONG. REC., Apr. 22, 1982, at S3929.

<sup>33</sup> Rakoff and Wolff, *supra* note 4, at 150.

— In 1976, counterfeit transistors were discovered among parts destined for use in the United States Space Shuttle.<sup>34</sup>

— In 1978, substandard counterfeit components were discovered among parts intended for use on several defense weapon system projects, including the F-4 fighter plane and the Chaparral and Lance missile systems.<sup>35</sup>

— Counterfeit power transmission belts ("V-belts") for use in both helicopters and automobiles displaying the Gates label have been discovered in Taiwan, the Philippines, Thailand, South Korea, and India, among other nations. These belts only last five percent as long as their genuine counterparts.<sup>36</sup>

— Counterfeit polio vaccines<sup>37</sup> and tetracycline<sup>38</sup> have been distributed to unsuspecting patients. Counterfeit drugs are believed to be the cause of more than twelve deaths, among them the death of a seventeen year old boy from New Mexico who lapsed into a coma after ingesting two counterfeit bipheta-mines. Several other victims have suffered paralysis linked to counterfeit drugs.<sup>39</sup> Dr. David E. Smith of the Haight-Ashbury Free Medical Clinic in San Francisco has reported that much of the street use of methaqualone (known as Quaaludes when produced by the Lemmon Company and still widely sold under their trademark) is so contaminated with "a grab bag of miscellaneous additives including barbiturates, arthritis medicines, o-toluidine (a toxic methaqualone precursor used in manufacturing dyes) and epoxy glue" that treating overdoses or adverse reactions is almost impossible.<sup>40</sup>

— In May 1978, the U.S. Food and Drug Administration recalled 357 heart pumps used in 266 hospitals across the United States. The recall was ordered because the \$20,000 intra-aortic balloon pumps, which simulate a patient's heartbeat during open heart surgery, were believed to contain potentially defective counterfeit components worth about eight dollars each.<sup>41</sup>

— Various counterfeit cosmetics have been known to cause skin irritation, rashes, allergic reactions, and facial scarring.<sup>42</sup>

— Kenya's annual coffee crop, a mainstay of its fragile economy, was virtually destroyed in 1979-1980 by the application of counterfeit and defective agricultural chemicals bearing the counterfeit label of the Chevron Corporation. The Corporation suffered much of the blame for the loss.<sup>43</sup>

These examples demonstrate that there is practically no limit to what the counterfeiter will copy. According to Peter Jones, Senior Vice-President of Legal and External Affairs of the Levi-Strauss Company, the largest manufacturer of branded apparel in the world, "If a product can be copied and sold with a counterfeit trademark at a profit, the

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<sup>34</sup> *Id.*

<sup>35</sup> Mosier, *Issue 39 — Count Indictment in Counterfeit Parts Case*, ELECTRONIC NEWS, Dec. 4, 1978, at 1.

<sup>36</sup> *Hearings on S. 2428, supra* note 5, at 51.

<sup>37</sup> Rakoff and Wolff, *supra* note 4, at 150.

<sup>38</sup> *Hearings on S. 2428, supra* note 5, at 40.

<sup>39</sup> *AMA Says 'Look-Alike' Drugs are Deadly*, United Press International, Apr. 2, 1982 (available on NEXIS).

<sup>40</sup> Smith and Seymour, *Methaqualone — Abuse Portfolio*, HIGH TIMES MAGAZINE, July 1984, at 30.

<sup>41</sup> *Heart Pumps*, Associated Press Release, May 10, 1978 (available on NEXIS) *cited in* Rakoff and Wolff, *supra* note 4, at 150.

<sup>42</sup> *Hearings on S. 2428, supra* note 5, at 52.

<sup>43</sup> Speech of Donald D. Kieffer, General Counsel, U.S. Trade Representative, Keystone, Colorado (Jan. 28, 1982), *European Chemical Ring Exposed*, Weekly Review, Feb. 20, 1981, both *cited in* Rakoff and Wolff, *supra* note 4, at 151.

odds are very great that bogus products will find their way into the stream of commerce.”<sup>44</sup>

It should also be noted that no consumer is truly safe from purchasing a counterfeit product. As noted earlier, many are exact duplicates of the real item. A lower price is not indicative of whether an item is or is not a counterfeit,<sup>45</sup> so comparison shopping fails as a protective alternative. Due to the settled anti-trust policy against retail (or resale) price maintenance,<sup>46</sup> brand name manufacturers have little control over the ultimate retail distribution of their goods.<sup>47</sup> Middlemen are able to sell products to almost any store, anywhere, to promote competition and lower prices, so only shopping in “high quality” or “up-scale” stores is no true protection. Truly no consumer is safe from possible deception. It has been reported that Mitsukoshi, Tokyo’s most prestigious department store, unknowingly sold a fake Hermes necktie to the Emperor.<sup>48</sup>

## 2. The Second Myth: “Counterfeits are inexpensive alternatives for the poor.”

While counterfeits are usually visually indistinguishable from their genuine counterparts, it is generally agreed that counterfeits are usually inferior in quality to the original product.<sup>49</sup> Counterfeits of wearing apparel and footwear tend to show less precise workmanship and may be made from inferior materials. Counterfeit cosmetics and toiletries may not be sterile, and perfumes and colognes are often entirely different in composition. Counterfeit agricultural chemicals and pharmaceutical drugs may be totally ineffective diluted variations of the genuine article, or composed entirely of neutral or poisonous agents. Counterfeit transportation equipment parts have been reported to be manufactured from inferior raw materials, lacking non-visible safety features, or made to imprecise specifications. Counterfeit electrical circuit breakers and various other electrical consumer goods have been found to be unable to withstand normal or rated electrical loads. Counterfeit records and tapes tend to exhibit inferior audio and/or video reproduction.<sup>50</sup>

The difference between counterfeit and legitimate merchandise is for the most part purely operational. Inferior stitching does not prevent a piece of apparel from being worn; it does, however, suggest a shorter product life span.<sup>51</sup> In some cases, counterfeits can serve equally as well as the genuine article; a \$20 watch with a Cartier label can keep time as well as a \$2,000 genuine watch.<sup>52</sup> It is this operational versus cosmetic trade-off that causes much consumer confusion regarding the quality of counterfeits. If it feels like a pair of Levis, looks like a pair of Levis, and wears like a pair of Levis (at least for the first week) consumers tend to discount apparel life against the reduced cost, especially if the article is purchased purely for social status reasons. While this superficial logic may work if the counterfeit article is purchased at a reduced price from that of the original, it fails if the article is bought at an equal or greater price, or if the article is a safety-related item

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<sup>44</sup> *Hearings on S. 2428, supra* note 5, at 36.

<sup>45</sup> *Id.* at 25.

<sup>46</sup> For an explanation and discussion of resale price maintenance, *see infra* text accompanying notes 223-31.

<sup>47</sup> *Hearings on S. 2428, supra* note 5, at 15.

<sup>48</sup> Kaikati and LaGarce, *supra* note 15, at 53.

<sup>49</sup> USITC PUBLICATION 1479, *supra* note 28, at xv.

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

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

where its quality is literally a matter of life and death. The potentially disastrous results are well illustrated by the examples listed in the first section, above.

### 3. The Third Myth: "It's only 'mom and pop' operations."

The word "counterfeiter" conjures up images in the minds of some consumers of older American couples who press phony Adidas labels onto sweatshirts for sale at local flea markets. There is, however, widespread agreement that this public perception is wrong. Modern commercial counterfeiters, far from being "mom and pop" operations, operate with elaborate management structures, extensive divisions of employee labor, and sophisticated systems of retail distribution.<sup>53</sup> The size of some counterfeiting operations rivals that of multinational corporations in terms of their manufacturing, exporting, transportation, and distribution systems both within the United States and abroad.

The vast majority of counterfeit goods sold in the United States are manufactured abroad and imported into the United States.<sup>54</sup> Most of the goods are manufactured in Asia, especially Taiwan, but also in South Korea, Hong Kong, Singapore, the Philippines, and Thailand.<sup>55</sup> Italy is also involved in the counterfeiting of luxury items, especially sunglasses.<sup>56</sup> The United States is the largest single market for foreign counterfeits; the U.S. International Trade Commission estimates that over sixty percent of the world's counterfeits destined for export are sold in the United States.<sup>57</sup> However, the Third World is not only a source of counterfeit products headed towards the industrialized world. Many lesser-developed countries (LDCs) have well-developed, internalized counterfeiting operations that supplement legitimate but inadequate supplies of consumer products. Uruguay, for example, has an established counterfeiting industry producing jeans and T-shirts primarily for domestic consumption;<sup>58</sup> Nigeria and India are increasingly relying on internally produced counterfeit automobile parts to meet increasing consumer demand.<sup>59</sup> Other nations, such as Panama, Turkey, and Spain, export whatever counterfeits are not consumed internally.<sup>60</sup> It should also be noted that, occasionally, industrialized nations act as source nations for counterfeits for the Third World. The Netherlands, for example, is a source of counterfeit home computer software, records and tapes, and agricultural chemicals for many African nations, as well as the rest of Europe.<sup>61</sup>

Many LDCs act as conduits for illegally produced goods through trade practices not precisely considered counterfeiting, such as grey market sales and diverted sales.<sup>62</sup> Counterfeiters can also circumvent the punitive impact of internationally imposed trade restrictions. The Republic of South Africa, for example, has almost given tacit approval to its growing counterfeit industry to placate domestic demand for consumer goods.<sup>63</sup>

It is generally recognized that no cash-starved, developing nation can resist the

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<sup>53</sup> Conlon, *supra* note 21, at 276-77.

<sup>54</sup> Walker, *supra* note 7, at D2.

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

<sup>56</sup> USITC PUBLICATION 1479, *supra* note 28, at 27.

<sup>57</sup> *Id.* at xiii.

<sup>58</sup> *Id.* at 28.

<sup>59</sup> *Id.* at 27-28.

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

<sup>61</sup> *Id.* at 28.

<sup>62</sup> *Id.* at 25-26. For a definition of gray market and diverted sales, see *supra* note 3.

<sup>63</sup> For example, South Africa has a large and growing counterfeit video cassette industry that primarily produces to satisfy domestic demand. *Id.* at 28.

seductive lures counterfeiters can offer. Counterfeiting provides employment, both direct and indirect,<sup>64</sup> at no visible cost to the government. LDC consumers hungry for spare parts or Western designer label items are satisfied by inexpensive counterfeits, sparing their national economy the negative economic consequences of importation.<sup>65</sup> Enforcement against counterfeiters, prompted by Western government pressures for reform, diverts finite resources toward police and customs enforcement, rather than toward other urgently needed social or economic development programs. Reliance on counterfeiting may satisfy short-term consumer needs but it will never provide the necessary capital formation<sup>66</sup> or promote the realistic economic atmosphere<sup>67</sup> required for true consumer

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<sup>64</sup> Direct employment is provided by the actual production and assembly of counterfeit products and their components, usually still a labor-intensive activity in many LDCs. Indirect employment is provided to LDCs by counterfeiters through the transportation, domestic retail distribution and sale, and export systems that must be created to handle the flow of counterfeit goods. The real difference between the two types of employment is that the national governments of the afflicted nations may occasionally be underwriting the cost of counterfeit distribution and sale by sponsoring the development of legitimate retail distribution infrastructures, which are then used, without compensation, by counterfeiters bent on promoting the "legitimacy" of their products. However, such an incidental cost has not yet been quantified.

<sup>65</sup> The most serious national economic consequence avoided is the effect the import of consumer goods would have on the LDCs' balance of trade. Since counterfeit goods are produced or imported covertly, no record is kept of such transactions, with no corresponding effect on national trade receipts. Also, where unlabeled merchandise is imported into a nation and the counterfeit trademark affixed in the nation where the product will eventually be sold, its original value is considerably less when entering the nation than when it is eventually sold with the trade name markup, further artificially understating the value of national imports. These understatements, in turn, affect the value of the national currency in international monetary markets, depress fiscal tax and tariff receipts available for collection, and may add inflationary pressures to already overextended economies.

<sup>66</sup> See generally, M. BRYANT AND L. WHITE, *MANAGING DEVELOPMENT IN THE THIRD WORLD* (1982); R. KINDLEBERGER, *ECONOMIC DEVELOPMENT* (1958); G. LITTLE, *ECONOMIC DEVELOPMENT — THEORY, POLICY AND INTERNATIONAL RELATIONS* (1982); K. AGARWALA AND A. SINGH, *THE ECONOMICS OF UNDERDEVELOPMENT* (1958); F. WATERSTON, *DEVELOPMENT PLANNING — LESSONS OF EXPERIENCE* (1965); *Science and Technology for Development*, Report on the U.N. Conference on the Application of Science and Technology for the Benefit of the Less Developed Areas, U.N. Publication 63.I.24, E/CONF.39/1, Vol. IV (1963).

<sup>67</sup> There appears to be a progression within the LDCs, especially those in Asia, from pure counterfeiting through the means of consumer deception, such as passing off, to the creation of original but somewhat identical trademarks registered with the national government. In an LDC, the first order of government business is to promote domestic production and export sales for internal economic benefits. This may be accomplished through counterfeiting or any of the other related forms of trademark infringement (passing off or gray market sales, etc.) because the existing brand names and trademarks already have an established demand, both domestic and abroad, and demand often exceeds the capacity of legitimate licensees. Also, because there are often few or no legal impediments to such cooperation between trademark infringers and LDC governments, the particular cultures involved may attach no stigma to counterfeiting. The initial counterfeiting then appears to give way to the gray areas, such as diverted sales, as trade is increased and the counterfeiting is attacked by rightful trademark holders. Finally, the former counterfeit industry develops and registers its own trademarks to legitimately compete with legal producers and simultaneously attempts to increase its acquisition of legitimate licenses, at which point this counterfeit industry becomes the target of other counterfeiters, both domestic and foreign. Given the nature of this progression, legitimate manufacturers will not attempt to compete or produce their products in these nations, dooming them to a continual and growing reliance on illegitimate producers to satisfy consumer demand. This point is dramatically illustrated by the empirical observation that counterfeiting never completely disappears from a country, regardless of the approach taken by legitimate manufacturers, once it is established. USITC PUBLICATION 1479, *supra* note 28, at 25-26.

product industrialization and distribution. The lack of minimally effective legislation against counterfeiting in many Third World countries<sup>68</sup> indicates that the Third World will remain a safe harbor and market for counterfeiters for some time to come.

The financing and import/export schemes of some counterfeiters would make legitimate producers envious. In one example, goods manufactured in Taiwan were shipped to a free-trade zone in Brooklyn — where they got “made in the United States” documentation — and then were shipped to the Canary Islands for distribution in Europe and Africa.<sup>69</sup> In a bizarre case reported by Peter T. Jones, Chairman of the International Anti-Counterfeiting Coalition,<sup>70</sup> in testimony before the Judiciary Committee of the United States Senate, an operation with its manufacturing base in Taiwan was being managed by three Englishmen, one of whom was a member of the boards of directors of some of the most distinguished companies in Great Britain. This operation was producing one million pairs of designer jeans annually, with a marketing plan that had hoped in five years to spread manufacturing operations throughout Southeast Asia and move two million units out of Taiwan alone each year. In Hong Kong, the managing partner of one of the world’s largest accounting firms collaborated with them on the accounting side, arranging for warehouses in Switzerland that were receiving deliveries of 100,000 units by ship.<sup>71</sup> While the magnitude of this operation is certainly unusual, it is indicative of the sophistication of counterfeiting operations worldwide.<sup>72</sup>

Once counterfeit goods reach the shores of the United States, their distribution can also be quite sophisticated. In a 1982 example, Designer Sportswear, Inc. was a New York corporation distributing counterfeit designer jeans to more than five hundred legitimate retailers throughout the United States. The company’s eight top executives divided among themselves such specialized duties as bribing bankers and obtaining phony credit references.<sup>73</sup> This example is hardly the largest that has been uncovered and is quite typical.<sup>74</sup> The existence of extensive counterfeit distribution networks is hardly surprising since the same economic factors that favor the widespread distribution of trademarked goods similarly favor a widespread distribution of counterfeits.<sup>75</sup>

In the United States, “mom and pop” counterfeiters who press phony Adidas labels onto sweatshirts for sale at the local flea market certainly do exist. But since most

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<sup>68</sup> While most nations have some form of legislation concerning the registration and priorities established for trademark owners, few LDCs have trademark infringement laws that could actively be used to pursue counterfeiters. For example, Nigeria’s Trade Marks Act of 1965, its primary trademark statute, contains no provision for barring infringing imports by its customs authorities. Neither does Singapore’s Trademark Act, Hong Kong’s Trademark Ordinance No. 47 of 1954, Mexico’s Law on Inventions and Marks of 1976, the Republic of Korea’s Trademark Law (Law No. 71 of Nov. 28, 1949), or Saudi Arabia’s High Decree No. 8762 of 28.7 1358 S.H. and Royal Decree No. M/24 of 23.6 1394 S.H., all of which are primary national trademark laws. Counterfeiting is rarely expressly prohibited — infringement, as with the U.S. Lanham Act, is the ultimate menace the statute attacks — and when it is, such as under Taiwan’s Trademark Law (as amended, Jan. 26, 1983), the process for bringing suit under the statute is so awkward and cumbersome it is rarely used given the volume of counterfeiting. See *infra* text accompanying notes 297-98.

<sup>69</sup> Walker, *supra* note 6, at D2.

<sup>70</sup> Mr. Jones’ additional qualifications are given, *supra*, in text accompanying note 44.

<sup>71</sup> *Hearings on S. 2428*, *supra* note 5, at 52.

<sup>72</sup> *Id.* at 51-52.

<sup>73</sup> *Makers of Designer Goods Starting to Crack Down on Counterfeiting*, Wall St. J., June 28, 1982, at 17.

<sup>74</sup> Rakoff and Wolff, *supra* note 4, at 147.

<sup>75</sup> *Id.* at 148.

counterfeits are sold in discount stores run by legitimate businessmen,<sup>76</sup> and most are imports, it appears that some of the original unsophisticated labor-intensive counterfeit operations have internationalized and grown since World War II, in keeping with the world economy in general.

### C. *The Impact on U.S. Industry*

Although statistics are obviously not kept in this type of business,<sup>77</sup> it is estimated that commercial trademark counterfeiting costs American business up to twenty billion dollars annually in lost sales. In addition, up to 300,000 jobs have been exported overseas.<sup>78</sup> These statistics fail to take into account the loss of goodwill caused when a counterfeit product fails and a bias is created against the legitimate product by the defrauded owner unaware his product is not genuine<sup>79</sup> or the price suppression caused when a legitimate manufacturer or retailer is forced to cut prices when competing against a counterfeit, usually not knowing his competitor is selling counterfeit merchandise.<sup>80</sup> Despite these statistics, most American retailers still do not feel counterfeiting is a serious problem,<sup>81</sup> certainly not one requiring federal legislation.<sup>82</sup>

The cost of U.S. industry efforts to combat foreign counterfeiting by identifying counterfeiters and prosecuting under local laws, and by registration of their trademarks internationally, rose from \$4.1 million in 1980 to \$5 million in 1981 and to \$12.1 million in 1982.<sup>83</sup> Even so, many manufacturers are not openly fighting counterfeiters and are praying they will not be dragged into litigation by adverse publicity. Some manufacturers fear that a detected counterfeit, once publicized, will hurt their reputations and sales as other consumers avoid all products bearing that trademark because of the fear of being defrauded.<sup>84</sup> Some U.S. manufacturers may not be aware that their products are being counterfeited and sold in this country or abroad. Of those counterfeits actually found, detection is most frequently left to private investigators or trademark watch services and alert wholesale and retail salespersons, buyers, distributors, and field personnel.<sup>85</sup> Even if

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<sup>76</sup> USITC PUBLICATION 1479, *supra* note 28, at xii.

<sup>77</sup> Since most of the data involved in attempting to quantify the sales and employment impact of counterfeiters on the United States and on American industries is obviously soft, an effort will be made to present alternate estimates of impact where appropriate.

<sup>78</sup> Beach, *supra* note 25, at B1. The USITC estimates these statistics to be \$5.5 billion in sales and approximately 131,000 jobs. Commissioner Paula Stern of the USITC notes that the figure of 131,000 jobs lost in 1982 is an estimate based on figures provided by selected industries canvassed by the Commission staff and then further derived from the standard calculations of the labor content of U.S. output, imports, and exports. For a full methodological breakdown of the statistic, *see* USITC PUBLICATION 1445, U.S. TRADE-RELATED EMPLOYMENT, Investigation No. 332-154 (1983). The estimates given in the text of the article, although widely bantered about in discussions of the counterfeiting problem, are to the author's knowledge without methodological breakdown. A statistic of \$16 billion in losses for American industry due to counterfeiting has been attributed to the U.S. Department of Justice. Although widely quoted, the source of the statistic is unknown to the Department! *Hearings on S. 2428*, *supra* note 5, at 17 (testimony of William F. Baxter, Assistant Attorney General, U.S. Department of Justice, Antitrust Division).

<sup>79</sup> USITC PUBLICATION 1479, *supra* note 28, at xvi.

<sup>80</sup> *Id.*

<sup>81</sup> *Id.* at xix. The position of retailers is that counterfeiting is a problem for manufacturers and vice versa.

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

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

<sup>84</sup> *Id.* at 55.

<sup>85</sup> *Id.* at 55-56.

a counterfeit source is detected, the difficult task of identifying its actual location and its owners and operators confounds all but the most determined investigators. Costly investigative efforts are often stymied because the geographic market and jurisdiction in which a counterfeit is detected is not always the same as the market and jurisdiction in which it was manufactured. As a result, many manufacturers are hard pressed to collect evidence against counterfeiters even though they know their identity.<sup>86</sup> The foreign product counterfeiter is also a shrewd and elusive businessman who is quick to run when and if the legitimate manufacturer pursues him.<sup>87</sup> Overall, the self-help remedies available for trademark registrants are considered totally ineffectual in attempting to stem the growing tide of imported counterfeits.<sup>88</sup>

The incidence of counterfeiting in the five major manufacturing industries affected by counterfeiters<sup>89</sup> increased during the period 1980-1982.<sup>90</sup> It appears that counterfeiting in two of the industries, the wearing apparel and footwear industry, and the record and tape industry, has matured to the point that, generally, as soon as the industries eliminate the source of a particular counterfeit product, new counterfeits of the product are introduced from other sources.<sup>91</sup> Even U.S. counterfeiting of domestic products<sup>92</sup> appears to be on the increase,<sup>93</sup> a trend suggesting the growing audacity of American counterfeiters. U.S. export markets have also been targeted by counterfeiters; both the number of counterfeited products and the diversity of counterfeit merchandise available has increased dramatically since 1980.<sup>94</sup> Overall export sales have dropped as legitimate products are forced to compete with their counterfeit counterparts, sometimes on the same discount store shelf, throughout Asia, South America, and Europe.<sup>95</sup> These statistics must be compared against the disappointing reality that although industry efforts against counterfeiters have almost tripled from 1980 to 1982,<sup>96</sup> confiscations of counterfeit goods have fallen when adjusted for inflation.<sup>97</sup>

### III. DOMESTIC ATTEMPTS TO SOLVE THE PROBLEM

From the size, impact, and growth rates of commercial trademark counterfeiting in the United States and worldwide, it is clear that current efforts to stop the flow of

<sup>86</sup> The expense involved in bringing a single large international counterfeiter to court, from identification to final judgment, can exceed \$500,000. *Hearings on S. 2428, supra* note 5, at 56 (testimony of Edward Brown, Manager, International Special Services of the A.T. Cross Export Company, describing the situation of the Cross Company).

<sup>87</sup> USITC PUBLICATION 1479, *supra* note 28, at 55.

<sup>88</sup> *Hearings on S. 875, supra* note 10, at 51-52 (testimony of James L. Bikoff, President and Executive Director of the International Anticounterfeiting Coalition). For a discussion of the civil, self-help remedies currently available for trademark registrants, *see infra* text accompanying notes 98-186.

<sup>89</sup> These industries include wearing apparel and footwear, chemicals and related products, transportation equipment parts and accessories, records and tapes, and sporting goods.

<sup>90</sup> USITC PUBLICATION 1479, *supra* note 28, at x.

<sup>91</sup> *Id.*

<sup>92</sup> For example, Texas onions are sold as the famous onions of Vidalia, Georgia.

<sup>93</sup> USITC PUBLICATION 1479, *supra* note 28, at x.

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

<sup>95</sup> *Id.* at 26-54.

<sup>96</sup> *See supra* text accompanying note 83.

<sup>97</sup> Confiscation values provided by the U.S. Customs Service are not inflation adjusted. Fifty-five million dollars in counterfeit goods were seized by the combined efforts of manufacturers and the

counterfeit goods are not working. This conclusion represents the vast consensus of the experts.<sup>98</sup> Current attempts to stop counterfeiting include a series of complicated, mostly federal, civil statutes, a handful of state and local criminal statutes, and some international treaties. All of these provide minor penalties which most counterfeiters write off as a cost of doing business<sup>99</sup> or a potential minor legal inconvenience. A discussion of each type of legislation follows.

### A. Civil Statutes

#### 1. The Lanham Act

The Lanham Act<sup>100</sup> is the principal federal statute relating to trademarks in the United States. It establishes a federal registration system for trademarks, accords registered trademarks certain benefits not available under state law, and provides remedies for infringement of registered marks.<sup>101</sup> The registration system is two-tiered, and is comprised of a Principal Register and a Supplemental Register. Benefits accrue largely to the trademarks on the Principal Register.<sup>102</sup> Infringement is defined as a simulation of the mark which causes a likelihood of confusion.<sup>103</sup> Counterfeit marks are dealt with expressly by the provisions of the Lanham Act.<sup>104</sup>

The trademark owner can commence actions for infringement by filing a complaint in the U.S. district court having personal jurisdiction over the defendant.<sup>105</sup> The court may enjoin future infringement and make an award for past infringement.<sup>106</sup> Registrants have a wide range of remedies available to them, including the defendant's profits, treble damages, destruction of all labels and signs with the offending trademark, and the destruction of all plates, molds, and other equipment used to reproduce the mark.<sup>107</sup> A preliminary injunction is the usual relief granted<sup>108</sup> and temporary restraining orders ("TROs") may be issued in advance of any preliminary injunction. Such TROs may be issued *ex parte* and may include search and seizure orders supervised by U.S. marshals.<sup>109</sup>

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Customs Service in both 1980 and 1981; the U.S. inflation rate was at almost double digit levels. USITC PUBLICATION 1479, *supra* note 28, at 50.

<sup>98</sup> This is the conclusion of any of the experts that testified for either the Trademark Counterfeiting Act of 1982 or 1983. See *Hearings on S. 2428*, *supra* note 5; *Hearings on S. 875*, *supra* note 10. It also cannot be logically denied that something is wrong with current enforcement since the level of counterfeiting in the United States continues to rise annually.

<sup>99</sup> Rakoff and Wolff, *supra* note 4, at 163.

<sup>100</sup> 15 U.S.C. §§ 1051-1127 (1976).

<sup>101</sup> The right to exclusive use of a trademark in the United States, unlike other countries, is created by use and not registration. Trademarks cannot be registered under the Lanham Act unless they are already in use in interstate or foreign commerce. Although the Lanham Act is primarily directed towards registered trademarks, section 43(a) has been widely interpreted by the courts to protect unregistered trademarks as well. USITC PUBLICATION 1479, *supra* note 28, at 7.

<sup>102</sup> *Id.*

<sup>103</sup> 15 U.S.C. § 1114(1) (1976).

<sup>104</sup> 15 U.S.C. § 1127 (1976).

<sup>105</sup> Appeal is to the appropriate United States Court of Appeals; further review is possible to the U.S. Supreme Court on certiorari.

<sup>106</sup> 15 U.S.C. §§ 1116-17 (1976).

<sup>107</sup> 15 U.S.C. § 1118 (1976).

<sup>108</sup> See, *Fiamb-Finanziaria Maglificio Biellese Fratelli Fila S.P.A. v. Kitchen*, 219 USPQ 40 (S.D. Fla. 1982) and the cases cited therein.

<sup>109</sup> *Id.*

Enforcement of injunctions is by contempt proceedings brought in any district court in whose jurisdiction the defendant can be found.<sup>110</sup> Enforcement of a judgment depends upon the existence of assets of the judgment debtor in the district where the court making the award sits or in the districts in which it is subsequently registered. Assets of a judgment debtor located abroad may be executed abroad by registration or by a separate action on the judgment by a local court. However, whether or not a judgment will be recognized and enforced in a foreign country depends upon the law of the particular country involved.<sup>111</sup>

Despite the imposing array of remedies available under the Lanham Act, the Act is regarded as largely ineffectual against modern, large scale counterfeiters.<sup>112</sup> Some of its technical problems include its overbroad coverage with respect to all kinds of trademark infringement and counterfeiting actions, judicial reluctance to impose the seemingly harsh remedies under the Act,<sup>113</sup> and its over-reliance on jurisdictional boundaries within the United States and abroad. Although counterfeiting, because of its inherent willfulness, is a prime candidate for treble damages and the award of attorneys' fees as remedies,<sup>114</sup> such judgments are often impossible to enforce<sup>115</sup> and damages are extremely difficult to measure.<sup>116</sup> Injunctions against the professional counterfeiter are sometimes ignored<sup>117</sup> as their counterfeit inventories are simply moved to a new jurisdiction. When the rarely granted TROs<sup>118</sup> are issued to prevent the movement of suspected counterfeit goods, they are often ignored or circumvented.<sup>119</sup> Even if a judge does grant a TRO, finding a marshal to enforce it and seize the named goods is sometimes next to impossible due to staff shortages and budget limitations.<sup>120</sup> In some areas, appointments for seizure must be made up to one week in advance. By that time the goods have been moved or sold.<sup>121</sup>

Probably the most serious barrier to the efficacy of the Lanham Act is that it places the burden of tracking down the counterfeiters, building a case against them, and establishing the case in court exclusively on the victims of counterfeiting.<sup>122</sup> Cartier, for example, spends over one million dollars annually on private investigators and lawyers to locate and sue counterfeiters of Cartier watches.<sup>123</sup> In contrast, no one supposes that since

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<sup>110</sup> 15 U.S.C. § 1116 (1976). It should also be noted that there are no charges brought for criminal contempt. *Hearings on S. 2428, supra* note 5, at 67.

<sup>111</sup> USITC PUBLICATION 1479, *supra* note 28, at 8.

<sup>112</sup> Rakoff and Wolff, *supra* note 4, at 157.

<sup>113</sup> *Id.*

<sup>114</sup> USITC PUBLICATION 1479, *supra* note 28, at 9.

<sup>115</sup> Rakoff and Wolff, *supra* note 4, at 159.

<sup>116</sup> It is difficult to assess "the defendant's profits" when he keeps no financial records, or destroys them; it is also difficult to assess "treble damages" when it is incalculable as to how many counterfeits were sold, and over what time period they were sold.

<sup>117</sup> *Hearings on S. 2428, supra* note 5, at 66.

<sup>118</sup> There is some judicial reluctance towards granting TROs. *Hearings on S. 2428, supra* note 5, at 61.

<sup>119</sup> *Id.* at 66.

<sup>120</sup> *Id.*

<sup>121</sup> *Id.* at 63. It should also be noted that the goods do not have to be physically moved; the infringing trademarks, all equipment used to place the trademarks on the goods, the labels bearing the trademarks, and any percentage of the goods with the trademarks need only be moved. These items can fit into a large truck at an hour's notice, even in a large scale operation.

<sup>122</sup> Rakoff and Wolff, *supra* note 4, at 158.

<sup>123</sup> *The History of Cartier v. Counterfeiting*, Cartier Press Release (available for public distribution through Cartier's general counsel).

banking institutions are prosperous, bank robbery and embezzlement should be left to those bankers able to bring lawsuits against the culprits. Many times it is a small company that is the victim of counterfeiting.<sup>124</sup> Such companies are without the resources to pursue criminals across the globe as they flee from jurisdiction to jurisdiction. Even the largest corporations are at a financial disadvantage against a large, disciplined, and secretive international counterfeiting organization.<sup>125</sup>

Two recent cases illustrate the problems a plaintiff may have bringing suit under the Lanham Act. In *Playboy Enterprises, Inc. v. Baccarat Clothing Co.*,<sup>126</sup> the plaintiffs established without dispute<sup>127</sup> that the defendant had engaged in widespread counterfeiting of the plaintiffs' trademarked jeans, having sold at least 20,000 pairs in southern California alone. Nonetheless, while finding there had been infringement under the Lanham Act, the district court refused to award plaintiffs treble damages and attorneys' fees, and denied them lost profits. Rather, the judge ordered the defendant to pay the plaintiff a five percent royalty on the approximately 20,000 pairs of jeans sold, in effect making the counterfeiter a licensee of the plaintiff. The total award amounted to only \$12,750. In *Textron, Inc. v. Aviation Sales, Inc.*,<sup>128</sup> litigation arising out of the counterfeiting of Bell Helicopter parts,<sup>129</sup> the plaintiff Textron was eventually awarded a judgment of \$42,247,632. Unfortunately, the defendant corporation was bankrupt and the principal behind the scheme had fled to Europe. Textron was able to recover only a small portion of the judgment.<sup>130</sup>

## 2. Relief through the U.S. Customs Service

In addition to an action for trademark infringement, the trademark owner may record his registered trademark with the U.S. Customs Service, which will then prohibit entry of goods bearing infringing marks. Similar provisions appear in the Lanham Act<sup>131</sup> and the Tariff Act of 1930.<sup>132</sup> The Lanham Act provision provides, *inter alia*, that "no article of imported merchandise ... which shall copy or simulate a trademark registered in accordance with the provisions of [the Act] ... shall be admitted to entry at any custom house of the United States ...."<sup>133</sup> The Tariff Act provides that "it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise ... bears a [registered] trademark owned by a citizen of, or by a corporation or association created or organized within, the United States."<sup>134</sup> Although these two provi-

<sup>124</sup> Rakoff and Wolff, *supra* note 4, at 158.

<sup>125</sup> *Id.*

<sup>126</sup> No. 81 Civ. 0603-R (C.D. Cal. 1981).

<sup>127</sup> The only witness who testified for the defendant was effectively limited to giving his name and other background particulars because he invoked the fifth amendment privilege against self-incrimination in response to most substantive questions at his prior depositions. Rakoff and Wolff, *supra* note 4, at 158.

<sup>128</sup> No. 77 Civ. 1317 (C.D. Cal. 1980).

<sup>129</sup> According to Bell Helicopter Company officials, millions of dollars worth of substandard counterfeit "Sikorsky" and "Bell Helicopter" parts have been sold to NATO allies and American helicopter fleets. These parts, including transmissions and landing gear assemblies, are believed to have been installed in over 600 helicopters in the military fleets of Britain, West Germany, France, Belgium, and at least five other American allies, causing a number of fatal accidents.

<sup>130</sup> Fuquay, *Bogus Parts Judgment Favors Bell*, Fort Worth Star Telegram, Oct. 2, 1980, at B1.

<sup>131</sup> 15 U.S.C. § 1124 (1976).

<sup>132</sup> 19 U.S.C. § 1526 (1976).

<sup>133</sup> 15 U.S.C. § 1124 (1976).

<sup>134</sup> 19 U.S.C. § 1526 (1976).

sions appear to be identical in scope, there are vast discrepancies between the jurisdictional effects of the two Acts.<sup>135</sup> The cost of recording is minimal: \$190 for each trademark and class of trademark registration and 1,000 copies of the registration certificate, plus a status copy of the registration certificate.<sup>136</sup> However, this procedure is not available for all types of intellectual property, including common law trademarks and "parallel importations," where products manufactured by the trademark owner or his licensees for sale in other countries are imported into the United States.<sup>137</sup>

After the registration process, the Customs procedures used to deny entry to counterfeit or confusing marks degenerate into confusion. Although all goods bearing either a recorded trademark or a mark likely to be confused with the recorded trademark are subject to seizure,<sup>138</sup> the rules provide for different treatment of "counterfeit marks" and those which are merely likely to be confused.<sup>139</sup> A "counterfeit" mark is defined as a mark which is identical or substantially identical to the registered mark,<sup>140</sup> and a "confusing" mark is one that would cause confusion to an unsophisticated buyer of the product at the retail level.<sup>141</sup> If the imported goods bear a counterfeit mark, Customs will notify the trademark owner of the seizure and the owner has thirty days to decide whether to consent to importation of the goods, exportation, entry after obliteration of the mark, or other appropriate disposition.<sup>142</sup> However, if the mark is only a confusing mark, the goods will be released if the confusing mark is removed or obliterated in such a manner that it is illegible and incapable of being reconstructed or reconstituted into a confusing mark.<sup>143</sup> Goods imported for the owner's "personal use" are also exempted from the seizure requirements only if the owner imports only one article.<sup>144</sup> All of these rather confusing distinctions do not ensure an efficient system.<sup>145</sup>

Customs recordation procedures only apply to registered trademarks and to copyrights. Therefore, corporations with other types of intellectual property problems such as alleged patent or common law trademark infringement have a choice as to whether they will file a Section 337 action under the Tariff Act of 1930<sup>146</sup> at the U.S. International

<sup>135</sup> 19 U.S.C. § 1526 is limited to protecting U.S. citizens and firms; 15 U.S.C. § 1124 extends to foreign firms as well. The Customs Service embraces both statutes in its implementing regulations. 19 C.F.R. Part 133. Customs' implementing regulations also cover foreign and domestic commercial names not registered as trademarks, which are protected by 19 U.S.C. § 1526, but do not refer to false designations or origin, which are mentioned in 15 U.S.C. § 1124 but not in 19 U.S.C. § 1526.

<sup>136</sup> The rule requires 1,000 copies. According to U.S. Customs officials in Boston, in actual practice Customs only requires five copies.

<sup>137</sup> 19 C.F.R. § 133.22(c)(3). Recently though, two courts have found that parallel importations constituted trademark infringement, *Model Rectifier Corp. v. Takachiho Int. Ca.* No. 82-5695 (9th Cir. 1983) and *Bell & Howell; Mamiya v. Masel Supply Co.*, 548 F.Supp. 1063 (E.D. N.Y. 1982), *rev'd on other grounds, vacated and remanded*, Dkt. No. 82-7867 (2d Cir. 1983), and Customs is reportedly considering changing its regulations to cover parallel importation. *BNA INT. INCE., 1 TRADE U.S.A.* (Sept. 1983).

<sup>138</sup> 19 C.F.R. § 133.21(a).

<sup>139</sup> 19 C.F.R. § 133.21(b), (d), § 133.23(b)(3).

<sup>140</sup> 15 U.S.C. § 1127; 19 C.F.R. § 133.23(a).

<sup>141</sup> There is great controversy surrounding this test. Indeed, the Second Circuit in *Montres Rolex SA v. Snyder*, 718 F.2d 524, *cert. denied*, 104 S. Ct. 1594 (1984), affirmed the granting of a writ of mandamus by the lower court directing Customs to use the ordinary consumer test.

<sup>142</sup> 19 U.S.C. § 1526(e); 19 C.F.R. § 133.23a(c).

<sup>143</sup> 19 C.F.R. § 133.21(c)(4).

<sup>144</sup> 19 C.F.R. § 133.21(c)(7), § 148.55.

<sup>145</sup> Rakoff and Wolff, *supra* note 4, at 162.

<sup>146</sup> 19 U.S.C. § 1337 (1976).

Trade Commission or a federal district court action under the Lanham Act. Corporations frequently choose Section 337 because it is an avenue of relief in addition to other provisions of law,<sup>147</sup> and Commission actions are generally decided within one year (or eighteen months, in more complicated cases).<sup>148</sup> Section 337 cases also do not raise the jurisdictional problems and enforcement of judgment problems that exist where foreign entities are involved. If a violation is found, the Commission may issue *in rem* orders excluding the infringing products from the United States.<sup>149</sup> Similarly, enforcement is not difficult since Customs enforces all exclusion orders,<sup>150</sup> and the exclusion order may exclude all infringing products whether or not made by the foreign firms named in the suit.<sup>151</sup>

To prove a Section 337 violation, complainants must show that respondents have engaged in unfair acts and unfair methods of competition in the importation of articles into the United States, or in their sale by either the owner or importer, or consignee or agent of either, the effect or tendency of which is to substantially injure or destroy an industry which is efficiently and economically operated within the United States. The first element, "unfair acts and unfair methods of competition," encompasses a variety of causes of action, including patent, common law, or registered trademark infringement, misappropriation of trade dress, misappropriation of trade secrets, false designation of source or origin, false representation, passing off, false advertising, and tortious interference with contractual relations.<sup>152</sup> This means that the scope of litigation is broader under Section 337 than the normal Customs relief accorded under Customs exclusion procedures for registered trademarks. The second element, involving the "importation into the United States, or in their sale by the owner, importer, consignee or agent or either . . .",<sup>153</sup> is proven as long as the articles are in the stream of domestic U.S. commerce.<sup>154</sup> The third element is jurisdictional; a domestic industry must file the complaint. The Commission decides on a case-by-case basis how much and what types of activity in the United States are necessary to support a domestic industry finding.<sup>155</sup> In addition, the complainant must prove that the domestic industry is "efficiently operated,"<sup>156</sup> although the Commission has always found this criteria satisfied.<sup>157</sup> The fourth element, an "effect to destroy or substantially injure the domestic industry," is viewed from a dual perspective; the substantial injury test relates to existing effects whereas the tendency to injure relates to future effects.<sup>158</sup> A factor generally considered under this element is the effect importation has or would have on the complainant's production, inventory, sales, profitability, employment, and prices.<sup>159</sup> Commission complaints are also not subject to the Federal Rules of

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<sup>147</sup> 19 U.S.C. § 1337(a) (1976).

<sup>148</sup> 19 U.S.C. § 1337(b)(1) (1976).

<sup>149</sup> 19 U.S.C. § 1337(d) (1976).

<sup>150</sup> 19 C.F.R. § 1240.

<sup>151</sup> USITC PUBLICATION 1479, *supra* note 28, at 15.

<sup>152</sup> *Id.* at 16.

<sup>153</sup> 19 U.S.C. § 1337(a) (1976).

<sup>154</sup> Welded Stainless Steel Pipe and Tube, Inv. No. 337-TA-29, at 11 (1979).

<sup>155</sup> Miniature, Battery-Operated, All Terrain, Wheeled Vehicles, Inv. No. 337-TA-122 (1983).

<sup>156</sup> 19 U.S.C. § 1337(a) (1976).

<sup>157</sup> USITC PUBLICATION 1479, *supra* note 28, at 16.

<sup>158</sup> 19 U.S.C. § 1337(a) (1976).

<sup>159</sup> See, e.g., Sneakers with Fabric Uppers and Rubber Soles, Inv. No. 337-TA-118 (1983); Drill Point Screws for Drywall Construction, Inv. No. 337-TA-116 (1983); Miniature Plug-In Blade Fuses, Inv. No. 337-TA-114 (1982).

Civil Procedure and are generally longer in length than district court complaints.<sup>160</sup>

There are two types of remedies available to the Commission: exclusion orders and cease and desist orders. An exclusion order may be either a general exclusion order directing the Customs Service to exclude the infringing products of *any* firm or a limited exclusion order requiring the Customs Service to prohibit entry of the infringing products made by a *specific* firm or firms. To obtain a general exclusion order, the Commission requires complainants to show "both a widespread pattern of unauthorized use" of the infringing product<sup>161</sup> and "business conditions" which could indicate "foreign manufacturers other than the respondents to the investigation may enter the market with infringing products."<sup>162</sup> Limited exclusion orders have been ordered in two cases where it was believed Customs would find it difficult to decide whether a particular product infringed a patent or when a general exclusion order might unduly interfere with foreign trade.<sup>163</sup> Cease and desist orders can be issued if the Commission has personal jurisdiction over the respondent.<sup>164</sup> Cease and desist orders have generally been issued against domestic respondents' unlawful acts which occur within the United States.

Even if the Commission finds that a remedy is appropriate, it must still consider certain public interest factors in determining whether relief should be granted.<sup>165</sup> The Commission has found that public interest concerns have outweighed the need for relief in two recent cases. One case involved the the Ford Motor Company's need for a key component to improve the fuel economy of its cars in order to meet the public's need for energy efficient cars.<sup>166</sup> The other case involved the need for basic research equipment in the field of structural nuclear physics.<sup>167</sup> Limited Presidential veto review was introduced into the process by the Trade Act of 1974<sup>168</sup> and three vetoes have occurred since.<sup>169</sup>

Despite these extensive provisions and the relative easing of jurisdictional questions compared to the Lanham Act, Customs has been ineffective in stopping the tide of counterfeits entering the United States. Many counterfeiters circumvent the process by not placing infringing marks on goods until after they have cleared Customs.<sup>170</sup> A

<sup>160</sup> For example, the Commission rules require a statement of the facts constituting the alleged unfair methods of competition and unfair acts. 19 C.F.R. § 210.20(a)(2).

<sup>161</sup> *Airless Paint Spray Pumps*, Inv. No. 337-TA-90, at 18, 216 USPQ 465 (1981).

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

<sup>163</sup> *Id.* at 17. See also *Certain Headboxes and Papermaking Machine Forming Sections for the Continuous Production of Paper and Components Thereof*, Inv. No. 337-TA-82A, 213 USPQ 291 (1981).

<sup>164</sup> *Certain Airtight Cast-Iron Stoves*, Inv. No. 337-TA-69 (1981). However, *in personam* jurisdiction is not necessary for the enforcement of a cease and desist order by means of exclusion of articles. *Certain Large Video Matrix Display Systems and Components Thereof*, Inv. No. 337-TA-75, at 30 n. 10, 213 USPQ 475 (1981), *rev'd on other grounds*, *SSIH Equipment Co. v. USITC*, 673 F.2d 1387 (CCPA 1982).

<sup>165</sup> See comments from the *Trade Act of 1974: Senate Committee Reports on the 1974 Amendments*, S. Rep. No. 1298, 93d Cong., 2d Sess., at 197 (1974), for an indication of Congressional attitudes.

<sup>166</sup> *Automatic Crankpin Grinders*, Inv. No. 337-TA-60, at 17-21, 205 USPQ 71 (1979).

<sup>167</sup> *Inclined Field Acceleration Tubes and Components Thereof*, Inv. No. 337-TA-67, at 22-31 (1980).

<sup>168</sup> 5 U.S.C. §§ 5312, 5314-16 (1976).

<sup>169</sup> One case involved a jurisdictional dispute as to whether the Commission should consider predatory pricing at the same time that a dumping case was pending. *Certain Welded Stainless Steel Pipe and Tube*, Inv. No. 337-TA-29 (1979). The Presidential disapproval in *Pipe and Tube* is found at 43 F.R. 17789, Apr. 26, 1978. The other two vetoes were for policy reasons. See 46 F.R. 32361, June 22, 1981, 47 F.R. 29919, June 28, 1982.

<sup>170</sup> "[As an example] the blank jeans were manufactured overseas or in the United States and

judgment for damages is not possible through the Commission's procedures, leaving the economic damage done to legitimate manufacturers uncompensated.<sup>171</sup> In addition, the process described above is not uniformly enforced at all points of entry into the United States.<sup>172</sup> Overall, however, the weakest link in the Customs Service barrier against counterfeiting is that the only penalty for attempting to import pirated goods is the confiscation of the goods themselves. Such an action often amounts to no more than an expense in doing business for the counterfeiter, not an end to his business altogether.<sup>173</sup>

### 3. Other Civil Remedies

Besides the administrative civil remedies available through the Customs Service, relief is available at the federal level through the Federal Trade Commission Act.<sup>174</sup> The problem with this type of relief, however, is that the powers of the Federal Trade Commission in this area are primarily injunctive and, in any event, have rarely been invoked against trademark infringement of any kind, let alone counterfeiting.<sup>175</sup> At the state level the Unfair Trade Practices and Consumer Protection Act is another possible civil remedy. Variations of this Act have been adopted in a number of states, but its penalties are, for the most part, insubstantial.<sup>176</sup> New York State, for example, had adopted a version of the Act<sup>177</sup> which provides for "treble damages" but only up to a maximum of one thousand dollars.<sup>178</sup> These state laws also provide little challenge for the international counterfeiter, who can jump from jurisdiction to jurisdiction like a knight on a chessboard or can find a "front" to conduct business for him.

Private civil remedies at the state level include variations of the Model State Trademark Bill<sup>179</sup> and the Uniform Deceptive Trade Practices Act ("UDTPA").<sup>180</sup> The majority of the states have adopted the Model State Trademark Bill as their state trademark law. Originally prepared in 1949 by the United States Trademark Association,<sup>181</sup> it does not vary significantly from the provisions of the Lanham Act.<sup>182</sup> The UDTPA, approved in 1964 and 1966 by the National Conference of Commissioners on Uniform State Laws,<sup>183</sup>

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delivered to the counterfeiter. Computerized sewing machines then imitated the distinctive stitching on the pockets. False buttons with the manufacturer's logo were sewn into place and spurious labels were then attached to the garment. At the location in Staten Island, approximately one-half million labels were recovered. These labels were manufactured in the United States." *Hearings on S. 875*, *supra* note 10, at 59 (testimony of Arthur Katz, Captain, New York City Police Department, Commander of the Safe, Loft, and Truck Squad, Detective Division, New York Police Department).

<sup>171</sup> USITC PUBLICATION 1479, *supra* note 28, at 22.

<sup>172</sup> *Id.* at 21. If the various ports of entry are not uniformly imposing restrictions against the importation of trademarked goods, the domestic owner of the trademark may request a ruling from customs headquarters regarding the appropriate restriction. The ruling will then serve as a guide for all Customs' ports of entry. C.S.D. 81-197, 15 CUSTOMS BULLETIN 1120 (1981).

<sup>173</sup> Rakoff and Wolff, *supra* note 4, at 162.

<sup>174</sup> 15 U.S.C. § 45(a)(1) (1976).

<sup>175</sup> J. GILSON, TRADEMARK PROTECTION AND PRACTICES § 1.03(b) (1980).

<sup>176</sup> Lovett, *State Deceptive Trade Practices Legislation*, 46 TUL. L. REV. 724 (1972); 89 A.L.R. 3D 399 (1979).

<sup>177</sup> N.Y. GEN. BUSINESS LAW § 349(a) (McKinney 1980).

<sup>178</sup> *Id.* at 349(h).

<sup>179</sup> MODEL STATE TRADEMARK BILL (1964).

<sup>180</sup> UNIFORM DECEPTIVE TRADE PRACTICES ACT (1966).

<sup>181</sup> J. GILSON, *supra* note 175, at § 10.03.

<sup>182</sup> Rakoff and Wolff, *supra* note 4, at 161.

<sup>183</sup> The National Conference of Commissioners on Uniform State Laws is an organization of

has been adopted by sixteen states and contains no provisions for trademark registration.<sup>184</sup> The Act essentially codifies the common law of unfair competition, making actionable the commission of a deceptive trade practice.<sup>185</sup> Injunctions can be granted without proof of monetary damage, loss of profits, or any intent to deceive, but the all-important search and seizure orders cannot.<sup>186</sup> Therefore, the effectiveness of the Model State Trademark Act and the UDTPA is theoretically as limited as the provisions of the Lanham Act. They are even more limited in terms of the actual resources the states can use against the counterfeiters.

### B. Criminal Statutes

Until the passage of the Comprehensive Crime Control Act of 1984 in October 1984, no federal criminal statute directly addressed the general problem of commercial trademark counterfeiting.<sup>187</sup> A number of statutes, however, dealt with the counterfeiting of specific goods. These included the Food, Drug and Cosmetic Act<sup>188</sup> which makes it a crime to counterfeit food, drugs, or cosmetics with the intent to defraud, and the recently enacted Piracy and Counterfeiting Amendments Act of 1982<sup>189</sup> which makes record and tape piracy a criminal offense. The impact of these specifically tailored counterfeiting statutes has been negligible given the increasing volume of counterfeiting in pharmaceutical, video, and audio products. It is unclear whether the newly enacted anti-trademark counterfeiting provisions of the Comprehensive Crime Control Act of 1984 will fare any better.

#### 1. The History of Penal Sanctions for Counterfeiting

Ancient penalties for commercial counterfeiting were draconian, to say the least. In the fourteenth century, for example, the Elector of Palatine decided the sale of spurious wine was an outrageous form of deceit and ordered the seller hanged.<sup>190</sup> An edict issued by Charles V in 1544 proclaimed the penalty for infringing Flemish Tapestry marks was amputation of the seller's right hand.<sup>191</sup> A royal edict from Charles IX of France in 1564

state officials formed in 1892 to promote uniformity in state laws. Commissioners are appointed by the governor or legislature of a state and serve without compensation. Francis, *1961 National Conference of Commissioners on Uniform State Laws*, 25 KY. S.B.J. 201 (1961).

<sup>184</sup> J. GILSON, *supra* note 175, at § 1.04(2)(a).

<sup>185</sup> Rakoff and Wolff, *supra* note 4, at 161.

<sup>186</sup> UNIFORM DECEPTIVE TRADE PRACTICES ACT, *supra* note 180, at § 2(a)(1). It should also be noted that damages are not available under the UDTPA. Dole, *The Uniform Deceptive Trade Practices Act: Another Step Towards a National Law of Unfair Trade Practices*, 51 MINN. L. REV. 1005, 1017 (1967).

<sup>187</sup> Rakoff and Wolff, *supra* note 4, at 164. Beside the Acts mentioned in the text, counterfeiting is theoretically actionable under 18 U.S.C. § 1001 (making false statements to agency of federal government); 49 U.S.C. § 121 (making false statements on a bill of lading); 18 U.S.C. § 542 (making false statements in connection with the importation of goods from foreign commerce); 18 U.S.C. § 1341 (the mail fraud statute); 18 U.S.C. § 1343 (the wire fraud statute); and 15 U.S.C §§ 1701-20 (the Interstate Land Sales Full Disclosure Act) but, according to William C. Steffin, an attorney with the Los Angeles law firm of Lyon & Lyon, "there has never been a successful prosecution of a trademark counterfeiter under applicable federal statutes based solely on the trademark counterfeiting activities." *Hearings on S. 2428, supra* note 5, at 65.

<sup>188</sup> 21 U.S.C. §§ 301-92 (1976).

<sup>189</sup> 18 U.S.C. § 2318 (1976).

<sup>190</sup> Conlon, *supra* note 21, at 281, *cited in* Rakoff and Wolff, *supra* note 4, at 152.

<sup>191</sup> *Id.* at 281.

mandated the death penalty for commercial counterfeiters.<sup>192</sup> In 1666, the drapers of Carcassone were protected by a statute ordering infringers sentenced to the pillory.<sup>193</sup> By the nineteenth century, these penalties were replaced in virtually every European country with a modern system of fines and imprisonments for those found guilty of counterfeiting.<sup>194</sup> This system remains in place today.<sup>195</sup>

Although the first consideration of the need for a federal trademark statute occurred in 1791,<sup>196</sup> no federal act was passed until the Trademark Act of 1870,<sup>197</sup> misleadingly entitled "An Act to Revise, Consolidate and Amend the Statutes Relating to Patents and Copyrights."<sup>198</sup> The Act afforded the exclusive right to use marks registered under its provisions and provided for damages and injunctive relief as remedies for counterfeiting and similar infringement.<sup>199</sup> There was no provision for federal criminal sanctions under the Act and Congress quickly realized they had made a mistake by the omission. As economic growth exploded in the post-Civil War era and the dependence on trademarks grew, there was also an unprecedented increase in trademark fraud and financial chicanery of every kind. Local and state authorities, overwhelmed with the problem, appealed to Congress and the Trademark Act of 1870 was amended in 1876 with "An Act to Punish the Counterfeiting of Trade-mark Goods."<sup>200</sup>

This criminalization of the knowing use of counterfeit trademarks only lasted three years. In 1879, the Supreme Court invalidated the entire federal Trademark Act of 1870<sup>201</sup> on the ground that it was improperly based on Congress' power over copyrights and patents, rather than Congress' power over interstate commerce. The invalidation of the 1870 Act also invalidated the 1876 criminal amendments. Congress has been in no hurry to repair the breach. In 1899, in his classic work on international patent and trademark laws, prominent legal scholar Arthur P. Greeley noted that among the major commercial nations affording exclusive use trademark protection, only the United States had no national law providing criminal penalties for trademark counterfeiting.<sup>202</sup>

## 2. The Trademark Counterfeiting Acts of 1982 and 1983

The Trademark Counterfeiting Act of 1982 was originally introduced in the U.S. Senate<sup>203</sup> during the 97th Congress, by Senator Charles Mathias (R-Md.), Chairman of the Senate Judiciary Subcommittee on Criminal Law. An identical version of the bill<sup>204</sup> was

<sup>192</sup> *Id.*

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

<sup>194</sup> GREELEY, FOREIGN PATENT AND TRADEMARK LAWS 179 (1899).

<sup>195</sup> Rakoff and Wolff, *supra* note 4, at 152.

<sup>196</sup> A petition was submitted to Congress in 1791 by Samuel Breck and other Boston sailmakers, requesting the exclusive privilege of using particular marks for identifying their sailcloth. The petition was referred to then Secretary of State Thomas Jefferson who urged passage of a federal law based on the commerce clause, providing for the registration of trademarks and for criminal penalties for their infringement. Rakoff and Wolff, *supra* note 4, at 153 (Jefferson's comments are reprinted therein).

<sup>197</sup> Act of July 8, 1870, ch. 230, §§ 77-84, 16 Stat. 198, 210-12 (1870).

<sup>198</sup> *Id.*

<sup>199</sup> *Id.* at 79.

<sup>200</sup> Act of Aug. 14, 1876, ch. 274, 19 Stat. 141 (1876).

<sup>201</sup> Trademark Cases, 100 U.S. 82 (1879).

<sup>202</sup> GREELEY, *supra* note 194, at 179.

<sup>203</sup> Designated S. 2428.

<sup>204</sup> Designated H.R. 6175.

introduced in the House by Judiciary Committee Chairman Peter Rodino (D-N.J.). The bill provided for stern criminal sanctions and civil penalties<sup>205</sup> beyond that of the Lanham Act and a simplification of judicial procedures, especially with respect to obtaining *ex parte* seizure orders.<sup>206</sup> Opposed by the Reagan Administration, the U.S. Department of Justice, and the United States Trademark Association,<sup>207</sup> both bills died in committee with the 97th Congress.

The same Act, with certain technical modifications,<sup>208</sup> was introduced in the U.S. Senate<sup>209</sup> and the House<sup>210</sup> during the first session of the 98th Congress by Senator Mathias and Chairman Rodino. After some political maneuvering prompted by election year promises to get tough on crime, the bill was incorporated into the sweeping Comprehensive Crime Control Act of 1984<sup>211</sup> and was signed into law in October, 1984.

This legislation amends Title 18 of the United States Code by adding section 2320, which provides that anyone who knowingly traffics or attempts to traffic in a counterfeit mark in foreign or domestic commerce shall, if an individual, be fined not more than \$250,000 and/or imprisoned for up to five years, and, if a corporation, be fined not more than \$1 million.<sup>212</sup> The Act covers only marks registered on the Principal Register or otherwise protected by statute. The owner of the infringed mark may bring a civil action in the U.S. district court to obtain injunctive relief and recover treble damages or profits, and costs, including attorneys' fees.<sup>213</sup> Prejudgment interest on actual damages may be awarded at the discretion of the court.<sup>214</sup> In such a civil action, a final judgment or decree rendered in favor of the United States in the criminal proceeding would estop the defendant from denying the essential allegations of the civil offense.<sup>215</sup> The court may ultimately order the destruction of the counterfeit materials taken into evidence,<sup>216</sup> and, in the Act's most controversial provision, *ex parte* search and seizure orders can be authorized for both criminal and civil actions.<sup>217</sup>

Lobbying for and against both the 1982 and 1983 Acts was furious and neatly split, with few exceptions, along industrial function lines. Support for the bill was led by the International Anticounterfeiting Coalition,<sup>218</sup> an organization entirely composed of

<sup>205</sup> For an individual, the penalties are a fine of not more than \$250,000, and a sentence of not more than five years. For a corporation, the penalty is a fine of not more than \$1 million.

<sup>206</sup> *Hearings on S. 2428, supra* note 5, at 60-64. (Testimony of William Steffin, qualified *supra* note 187, as to confusion of present status of *ex parte* seizure order availability).

<sup>207</sup> See the testimony of William Baxter and Thomas J. Corum for representative positions on the bills. *Hearings on S. 2428, supra* note 5, at 8 and 72, respectively.

<sup>208</sup> A comparison of the 1983 Act with the 1982 Act reveals a narrowing of the intent standard (scienter), a simplification of the definition of "counterfeit," elimination of a choice in the type of damages a court can provide, and a greater reliance on the Federal Rules of Civil Procedure for guidance in the area of TROs and *ex parte* seizure orders.

<sup>209</sup> Designated S. 875.

<sup>210</sup> Designated H.R. 2447.

<sup>211</sup> House Joint Resolution 473 (1984) P.L. 98-473.

<sup>212</sup> Section (a).

<sup>213</sup> Section (d)(1).

<sup>214</sup> Section (d)(2).

<sup>215</sup> Section (d)(3).

<sup>216</sup> Section (f).

<sup>217</sup> Section (e).

<sup>218</sup> Formed in 1978, the International Anti-Counterfeiting coalition consists of more than 70 major manufacturers who seek to combat commercial counterfeiting through cooperation with law enforcement and consumer protection groups. The Coalition's own law firm, Mudge, Rose, Guthrie

product manufacturers,<sup>219</sup> while opposition was left to various retailers' associations, such as the Association of General Merchandise Chains, Inc.<sup>220</sup> and other retailing chains, notably the K-Mart corporation.<sup>221</sup> The Reagan Administration supported the Act in principle but only after more unspecified technical modification.<sup>222</sup>

The ultimate question that bogged down both the 1982 and 1983 Acts for so long was who should have the burden of stopping counterfeiting, retailers who sell the merchandise or the manufacturers who produced it. It appears the manufacturers have won this battle. The dispute over who should carry the burden is inherent to legislation on this issue, and will remain a stumbling block to efficient enforcement until both sides are given an equal share of the burden. A brief synopsis of both positions follows.

a. The Manufacturers' Position (for the Act)

i. Antitrust legislation binds the hands of manufacturers to act

Since the passage of the Robinson-Patman Act of 1936,<sup>223</sup> the U.S. Department of Justice has taken a strict position against the practice of retail (sometimes called resale) price maintenance.<sup>224</sup> This Act, not designed to help the consumer but actually to protect small businesses from larger competitors,<sup>225</sup> has been interpreted by the U.S. Supreme Court in *Continental T.V., Inc. v. GTE Sylvania*<sup>226</sup> to make retail price maintenance schemes *per se* anti-competitive.<sup>227</sup> This poses a dilemma, however, for the manufacturer wishing to trace the path of counterfeit goods. Extensive identification, tracking, and marking systems now exist for use by manufacturers.<sup>228</sup> Although these systems could be used to follow the trail of legitimate merchandise through the stream of commerce and could thereby easily identify those retailers selling counterfeit goods, such a tracing scheme would (or could) be judged as a non-price vertical arrangement under the *per se* rule in *Sylvania* and its progeny, subjecting the manufacturer to antitrust penalties. Easing the *per se* rule would certainly decrease market competition and raise prices.<sup>229</sup> Failure to ease the

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& Alexander, participated heavily in the drafting of the Model Commercial Counterfeiting Act, a precursor to the Trademark Counterfeiting Act of 1982.

<sup>219</sup> A list of members can be found in *Hearings on S. 875*, *supra* note 10 at 53.

<sup>220</sup> *Hearings on S. 875*, *supra* note 10, at 24-33.

<sup>221</sup> According to James L. Bikoff, President and Executive Director of the International Anti-Counterfeiting Coalition, the intensity of objection coming from the Association of General Merchandise Chains and the K-Mart Corporation bordered on "paranoia." *Hearings on S. 875*, *supra* note 10, at 49.

<sup>222</sup> Letter from Hamilton Fish, Jr., member of the Congress of the United States, Apr. 9, 1984 (written to author).

<sup>223</sup> 15 U.S.C. §§ 13, 13(a), 13(b), 21(a) (1976).

<sup>224</sup> Retail price maintenance is a practice whereby a manufacturer sets the minimum retail price of a product, thereby eliminating price competition among retailers of that product.

<sup>225</sup> P. WONNACOTT & T. WONNACOTT, *ECONOMICS* 503 (1979).

<sup>226</sup> 433 U.S. 36 (1977), *on remand* *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 461 F.Supp. 1046 (N.D. Cal. 1978), *aff'd* *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 694 F.2d 1132 (9th Cir. 1982).

<sup>227</sup> This *per se* approach has been subsequently affirmed by the Supreme Court. *Copperweld Corp. v. Independence Tube Corp.*, 52 U.S.L.W. 4821 (1984); *Monsanto Co. v. Spray-Rite Serv. Corp.*, 52 U.S.L.W. 4341 (1984); 30 A.L.R. FED. 19, Supp. § 1.

<sup>228</sup> For a comprehensive listing and explanation of sophisticated marking, tracking, and identification technologies currently available, see USITC PUBLICATION 1479, *supra* note 28, at 59-61.

<sup>229</sup> Such is the justification for the *per se* rule in the first place; see *Sylvania*, *supra* note 226, at 38-40.

rule means manufacturers will be advised by their attorneys not to trace their goods.<sup>230</sup> Certain pro-retailer factions in this debate have argued that the Act is a thinly veiled attempt by brand-name manufacturers to engage in retail price maintenance. This, of course, is denied.<sup>231</sup>

ii. The seizure provision of the Act is necessary and safeguarded

Without a seizure provision obtained *ex parte*, counterfeiters will simply move their goods when alerted that the authorities are aware of them.<sup>232</sup> The pending bills contain significant disincentives directed toward unscrupulous manufacturers who would disrupt the legitimate business of retailers. These disincentives include the posting of a substantial bond to cover potential damages to the party from whom the goods are seized. Where the seizing party proceeds without adequate evidence that the goods are counterfeit, the defendant would be entitled to recover reasonable attorneys' fees.<sup>233</sup> The *ex parte* seizure provision of the Act is supported by the Reagan Administration.<sup>234</sup>

iii. The Act is necessary

The increasing scope, range, and volume of counterfeit goods entering and being sold in the United States each year is offered as *prima facie* evidence that current laws are not working and that additional legislation is required.

b. The Retailers' Position (against the Act)

i. The Act is unnecessary

As support for their position that the Act is unnecessary, opponents point to the increasing number of actions brought under the Lanham Act,<sup>235</sup> the redundancy of the civil and criminal sanctions in the Act versus those already existing under the Lanham Act and various U.S. Customs regulations,<sup>236</sup> the increasing availability of seizure orders (not necessarily *ex parte*) made possible by the Second Circuit Court of Appeals decision in *In Re Matter of Vuitton Et. Fils*,<sup>237</sup> and the liberal discovery permitted under Rule 65 of the Federal Rules of Civil Procedure to facilitate the identification of counterfeiters.<sup>238</sup> In any case, some argue that trademark infringement is essentially a private wrong committed

<sup>230</sup> *Hearings on S. 2428, supra* note 5, at 10. (Testimony of William Baxter).

<sup>231</sup> *Hearings on S. 875, supra* note 10, at 49-51. (Testimony of James Bikoff).

<sup>232</sup> Rakoff and Wolff, *supra* note 4, at 159-60.

<sup>233</sup> *Hearings on S. 875, supra* note 10, at 51.

<sup>234</sup> *Hearings on S. 875, supra* note 10, at 13. The bill is also supported by the U.S. Departments of Commerce and Justice. *Id.* at 13.

<sup>235</sup> *Hearings on S. 875, supra* note 10, at 26.

<sup>236</sup> *Id.* at 101.

<sup>237</sup> 606 F.2d 1 (2d cir. 1979). In the controversial *Vuitton* case, the Lanham Act was stretched to the limit as the Second Circuit recognized that in appropriate circumstances a district court may grant *ex parte* applications of trademark owners for the issuance of temporary restraining orders prohibiting counterfeiters from disposing of their goods. Of course, this decision is only followed in district courts within the Second Circuit (denying this remedy to all other victims) and it is unclear under what circumstances the *ex parte* TRO can be granted. (The *Vuitton* case dealt with a counterfeiter who transferred goods on learning of an imminent injunction to a third party.) See *Hearings on S. 875, supra* note 10, at 38-40.

<sup>238</sup> Rule 65 deals with temporary restraining orders in the status quo.

against a trademark owner and, on the spectrum "of unlawful actions, trademark infringement does not rise to the level of reprehensibility as to justify granting private litigants the right to obtain *ex parte* seizure orders."<sup>239</sup>

ii. *Ex parte* seizure orders should be restrained or eliminated

Retailers fear that they will become the target of vicious manufacturers, their inventories seized without notice, and their goodwill and sales obliterated by the bad publicity which would follow *ex parte* seizure.<sup>240</sup> The safeguards advocated by supporters of the bill — the posting of a surety bond and the possible attorney fee compensation — appear to be inadequate. They argue that the goodwill lost in a media-covered seizure of a legitimate retailer's inventory could be worth many times the value of the inventory seized or the expended attorneys' fees.<sup>241</sup> They also note that the Senate version of the bill<sup>242</sup> does not require the posting of a bond nor are punitive damages available in situations where complainants use bad faith in seeking the seizure.<sup>243</sup>

iii. The wording of the Act is overbroad and vague

An illustration of the retailers' argument that the wording of the Act is overbroad and vague is the wording of the definition of counterfeiting. For example, the wording of counterfeiting definitions within the Act would also seem to apply to trade practices not considered counterfeiting *per se*, such as simple infringement, trade dress, knock-offs, and grey market sales, which can sometimes be considered beneficial to the public.<sup>244</sup> Similar objections surround the Act's definition of "traffic" and "trademark."<sup>245</sup> These wording problems prevent full Reagan Administration support for the bills.<sup>246</sup>

The passage of the Trademark Counterfeiting Act of 1983 is not a guarantee of success against counterfeiters, but it appears to be a step in the right direction. The *ex parte* seizure provisions are a weapon long desired by anti-counterfeiters but their real impact is unclear after the liberalization of the Lanham Act expressed by the Second Circuit in the *Vuitton* decision. The passage of this Act reeks of election year politics and it is currently unknown whether the will to enforce this legislation exists, especially since many of the same enforcement agencies charged with keeping counterfeits off our streets are now burdened with the more politically popular "war against drugs." One hundred and five years after the end of penal sanctions for commercial trademark counterfeiting,

<sup>239</sup> *Hearings on S. 875, supra* note 10, at 104. See note 3, *supra*, for terminology definitions.

<sup>240</sup> *Id.* at 27-29.

<sup>241</sup> *Id.*

<sup>242</sup> This is also true of the House version, but the House has not yet conducted hearings on the bill.

<sup>243</sup> Considering the intense fears many retailers have towards *ex-parte* seizures by disgruntled manufacturers, the lack of a more substantive bond or punitive damages provision illustrates the political weakness of the retailer's position on the issue of counterfeiting in general. It should be noted that neither the Model Commercial Counterfeiting Act nor the Trademark Counterfeiting Act of 1982 had such a restraining provision on *ex-parte* seizures by manufacturers. This is no surprise since this bill was essentially drafted by the law firm representing the international anti-counterfeiting coalition. See note 218, *supra*.

<sup>244</sup> *Hearings on S. 875, supra* note 10, at 29.

<sup>245</sup> *Id.*

<sup>246</sup> *Id.* at 29-31.

Congress has finally agreed to reimpose them.<sup>247</sup> Now it is up to the executive branch to enforce them.

### 3. State Criminal Statutes

A number of states have criminal statutes pertaining to counterfeiting but few prosecutions are brought under them.<sup>248</sup> In general, these statutes<sup>249</sup> require the prosecution to prove four elements beyond a reasonable doubt. First it must be shown that the mark is covered by the statute.<sup>250</sup> Second, someone other than the defendant must have the exclusive use of that mark.<sup>251</sup> The third element requires the commission of some act that will serve as the *actus reus*, such as counterfeiting the mark, affixing it to a spurious good, or vending the goods with a counterfeit mark attached.<sup>252</sup> Finally, in most of the statutes or case law interpreting them, there must be an intent to defraud (*scienter*).<sup>253</sup>

While these statutes appear to directly address trademark counterfeiting, most make the crime a misdemeanor and impose a prison sentence of only a few months.<sup>254</sup> Moreover, since these maximum penalties, like other maximum prison sentences, are rarely imposed, the penalty is really only the threat of a small fine.<sup>255</sup> Even if the statutes were made tougher by the legislatures, criminal law enforcement statistics from the past would suggest that local police authorities, with their limited resources, limited jurisdictional authority, and more pressing immediate demands on their time, would not fare well against the international, large-scale, ultrasophisticated counterfeiter.<sup>256</sup>

In addition to the laws mentioned above, counterfeiting would theoretically be actionable under the general criminal statutes for fraud and larceny. In fact, for the above-mentioned reasons, there are very few prosecutions brought under these statutes.<sup>257</sup>

### 4. The Need for Tough Criminal Penalties

There is little deterrence in the civil sanctions of the Lanham Act or the other administrative remedies available at the federal level.<sup>258</sup> In an industry where huge profit margins are available for the unscrupulous, fines and judgments are considered a cost of

<sup>247</sup> For an indignant article on the subject of federal delays in passing penal legislation, see Rakoff, *For Passage Now of the Trademark Counterfeiting Act: 104 Years is Long Enough to Wait*, 73 TRADEMARK REP. 553 (1983).

<sup>248</sup> 89 A.L.R. 3D 399 (1979)(indicating that the shortage of commercial counterfeiting case law is due to the relative newness of many statutes and a shortage of prosecutions).

<sup>249</sup> See Harrison, *Penal Actions for Trademark Infringement: A Survey of Statutes and Cases*, 57 TRADEMARK REP. 285, 290-99 (1967) (assessing state criminal statutes relating to counterfeiting.)

<sup>250</sup> *Id.* at 292. Many state statutes exclude service marks from protection and include collective or union marks.

<sup>251</sup> *Id.* at 293-94.

<sup>252</sup> *Id.* at 294-97.

<sup>253</sup> *Id.* at 297-98.

<sup>254</sup> *Id.* at 299-300. See, e.g., CONN. GEN. STAT. ANN. 53-347(a) (West Supp. 1979) (imposes a maximum fine of \$500 and/or six months imprisonment in Connecticut.)

<sup>255</sup> Rakoff and Wolff, *supra* note 4, at 163.

<sup>256</sup> Conlon, *supra* note 21, at 281.

<sup>257</sup> Rakoff and Wolff, *supra* note 4, at 162.

<sup>258</sup> The Federal Trade Commission Act, 15 U.S.C. § 45(a)(1) (1976) is an administrative alternative, but since the powers of the FTC are purely injunctive, they have been only rarely used against trademark infringement of any kind, let alone counterfeiting. J. GILSON, *supra* note 175, at § 1.03(b).

doing business, much like other expenses. The existing state and local legislation imposing criminal penalties cannot be expected to bear the burden of public attack against counterfeiting. In a problem so international and national in scope,<sup>259</sup> the federal government must take an active role in prosecuting counterfeiters; time will tell if it will. The onus of prosecuting counterfeiters should remain with those profiting from their trademarks. Such firms will continue to pursue counterfeiters, especially under the new *ex parte* seizure provisions of the 1983 Act. Perhaps the federal role in prosecuting counterfeiters should be coordinated with private concerns, allowing federal resources to be targeted against the largest and most slippery counterfeiters while conventional civil actions attack the rest. In any case, those guilty of brand name piracy should be given the maximum penalties at the outset of federal enforcement for the highest deterrence effect possible. As William Steffin, an attorney with the Los Angeles patent law firm of Lyon & Lyon, has publicly stated "there is nothing like the [deterrence] of the clang of a cell door."<sup>260</sup>

#### IV. INTERNATIONAL ATTEMPTS TO SOLVE THE PROBLEM

Commercial trademark counterfeiting is truly an international problem. No industrialized nation is safe from being considered a market for counterfeit goods and no developing, cash-poor nation is immune from the tempting appeal of giving open or tacit approval to the cash-generating activity of the trademark pirate.<sup>261</sup> International cooperation is necessary to deny production sanctuaries, export and distribution systems, and markets to the counterfeiter. Predictably, given the current size and growth rates of trademark counterfeiting, these agreements have not been substantially effective in deterring the activity nor making it more difficult.<sup>262</sup>

##### A. International Agreements

The major international agreements concerning exclusive trademark use and remedies for infringement are outlined below, with a short synopsis of each and why it is generally considered a moribund solution to a growing problem.

#### 1. The International Union for the Protection of Industrial Property

Established in 1883, The International Union for the Protection of Industrial Property (also known as the The Paris Union) is subscribed to by about eighty nations<sup>263</sup> including the United States.<sup>264</sup> Three specific articles of the agreement apply directly to

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<sup>259</sup> The problem is international in terms of the level of counterfeit exports and the common problems created in each market by the counterfeiter; the problem is national in terms of the scope, size, and sophistication of the domestic distribution systems within the United States, and for the deleterious impact counterfeiting has had on American industry and the welfare of the American consumer.

<sup>260</sup> *Hearings on S. 2428, supra* note 5, at 67.

<sup>261</sup> Walker, *supra* note 7, at 121.

<sup>262</sup> As an example of the growth of counterfeiting, the Ford Motor Company claims there has been a doubling of the counterfeiting of automobile parts within the last two years. Beach, *supra* note 25, at B2.

<sup>263</sup> For a complete list of signatories, see OFFICE OF THE LEGAL ADVISOR, TREATY AFFAIRS STAFF, DEPT. OF STATE PUB. NO. 9351, TREATIES IN FORCE (1983) [hereinafter cited as TREATIES IN FORCE].

<sup>264</sup> The United States signed the treaty in 1911. It has been revised in 1900 (Brussels revision), 1911 (Washington revision), 1925 (The Hague revision), 1934 (the London revision), 1958 (the

commercial counterfeiting: Article 6 prohibits the use and registration of confusing trademarks, Article 9 prohibits the importation of goods bearing unlawful trademarks and authorizes seizure of such goods where permitted by national law, and Article 10 provides protection against unfair competitive measures.<sup>265</sup> The Paris Union does not require signatory nations to apply specific standards but requires only that they grant the same trademark protection to nationals of other signatory nations as they do to their own citizens.<sup>266</sup> Therefore, protection under the Paris Union is limited to the efficiency of each nation's trademark laws. The inadequacy of U.S. trademark counterfeiting laws, described above, is typical of the members of the Union.<sup>267</sup>

The Paris Union is generally regarded as ineffective as a medium for targeting international pressure against counterfeiters.<sup>268</sup> Perhaps the best measure of the Union's impotence is that Taiwan, the most nefarious counterfeiting nation in the world, is not a party to the agreement.<sup>269</sup>

## 2. The Madrid Agreement for the International Registration of Marks

The Madrid Agreement, in force since 1891,<sup>270</sup> has been affirmed by twenty-four member nations, including the entire continent of Europe except for Poland, Greece, Bulgaria, Albania, and the four Scandinavian countries.<sup>271</sup> The most recent member to join is the Soviet Union, which signed the Agreement in July 1976.<sup>272</sup>

The Madrid Agreement provides for the registration of marks at an International Bureau, part of the World Intellectual Property Organization, located in Geneva, Switzerland. Registrations effected under the agreement are called international as every registration has an effect in several countries, and potentially in all member States of the Madrid Union. To be able to enjoy the registration advantages of this agreement, the applicant must be a national of, domiciled in, or have a real and effective industrial or commercial establishment in one of the member countries. The applicant must also first have his mark registered in the national office of that home country. Then he may file, through that same national office, an application for international registration.<sup>273</sup> International registration then provides multinational notice to others that exclusive use of a given mark has been claimed.

Like the Paris Union, the Madrid Agreement provides no mechanism for the detection or prosecution of counterfeit trademark violators and thus has had little deterrent effect on the professional counterfeiter.<sup>274</sup> Unlike the Paris Union, many major industrial

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Lisbon revision), and 1967 (the Stockholm revision). The Stockholm revision entered into force on September 5, 1970, with the exception of articles 1 through 12, which entered into force on August 25, 1973. 21 U.S.T. 1583; 24 U.S.T. 2140 T.I.A.S. No. 6923, 7727. U.S. law also requires that bilateral commercial treaties with countries not signatory to the Paris Convention must contain provisions to ensure treatment of U.S. nationals which is no less favorable than that afforded by the Paris Convention. 19 U.S.C. § 2435(b)(4) (1976).

<sup>265</sup> Walker, *supra* note 7, at 119.

<sup>266</sup> *Id.*

<sup>267</sup> Rakoff and Wolff, *supra* note 4, at 152.

<sup>268</sup> *Id.* at 176-77.

<sup>269</sup> TREATIES IN FORCE, *supra* note 263, at 243.

<sup>270</sup> Allen, *The Trademark Registration Treaty*, 21 IDEA — J. L. & Tech. 163 (1980).

<sup>271</sup> *Id.* at 165.

<sup>272</sup> *Id.* at 166.

<sup>273</sup> *Id.*

<sup>274</sup> Rakoff and Wolff, *supra* note 4, at 177.

nations, including the United States, Britain, and Japan, are not signatories to the agreement for a variety of technical reasons,<sup>275</sup> nor are any of the major counterfeiting nations.<sup>276</sup> It is no real surprise, given the narrow purpose of the Madrid Agreement, that it is ineffective in stopping the proliferation of counterfeiting.

### 3. The Trademark Registration Treaty

There has been a fairly recent trend by the developed non-signatory countries, especially the United States, to attempt to correct the much disputed inadequacies of the registration process under the Madrid Agreement. Between 1968 and 1970, there was an effort to revise the Agreement but these negotiations were fruitless.<sup>277</sup> In September 1970, the United States sponsored a resolution to develop a new treaty which was unanimously adopted by the competent administrative organs of the Paris Union. After several drafts, examinations by consultant groups, and six committees of experts, a final draft was considered at a diplomatic conference held in Vienna from May 17 to June 12, 1973. Fifty nations and thirty-one international organizations were represented at the conference. On June 12, 1973, the Trademark Registration Treaty ("TRT") was signed by eight nations, including the United States, and it remained open for signature until December 31, 1973, by which date a total of fourteen countries had signed. The TRT went into effect for the Soviet Union and four African nations on August 7, 1980.<sup>278</sup>

The failure of the United States to act effectively with regard to the TRT indicates the low priority Congress has accorded the problem of trademark counterfeiting. The implementing legislation of the TRT<sup>279</sup> has never been adopted, nor has the Senate ratified the Treaty, even though the President of the United States signed the Treaty on September 3, 1975 with a message requesting that the Senate give its consent to ratification.<sup>280</sup> The U.S. Department of Justice remains opposed to the TRT and its implementing legislation<sup>281</sup> and it appears unlikely the TRT will be ratified by the 99th Congress.

### 4. Other International Treaties

The United States is party to a number of other international agreements relating to the issues of trademark registration and sanctions for violating the doctrine of exclusive use. The Nice Agreement, entered into force by the United States in 1972<sup>282</sup> concerns the international classification of goods and services for the purpose of registration of trademarks. The Locarno Agreement, entered into force on the same day as the Nice Agreement,<sup>283</sup> establishes an international classification for industrial designs. The convention establishing the World Intellectual Property Organization, essentially the enforcement arm of the Paris Union, was entered into force in 1970.<sup>284</sup>

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<sup>275</sup> Complaints primarily center about the ease of registration for international notice and the protection afforded registrants in foreign nations. See Allen, *supra* note 270, at 165.

<sup>276</sup> TREATIES IN FORCE, *supra* note 263, at 244.

<sup>277</sup> Allen, *supra* note 270, at 164.

<sup>278</sup> *Id.* at 165.

<sup>279</sup> 973 TMOG 3 (1978).

<sup>280</sup> Allen, *supra* note 270, at 162.

<sup>281</sup> *Id.* at 174.

<sup>282</sup> 23 U.S.T. 1353; T.I.A.S. No. 7419 (May 25, 1972).

<sup>283</sup> *Id.*

<sup>284</sup> 21 U.S.T. 1749; T.I.A.S. No. 6932 (Aug. 25, 1970).

There are also a number of regional agreements that exist for the primary purpose of registering trademarks. The General Inter-American Convention for Trademark and Commercial Name Protection, in force since February 1931,<sup>285</sup> includes most of the Latin American nations plus the United States and provides general trademark reciprocity similar to that of the Paris Union.<sup>286</sup> The African and Malagasy Industrial Property Office was created by an accord signed by the twelve member states of the African and Malagasy Union in September 1962, establishing a common system for the maintenance of patent and trademark rights, with a single deposit and centralized administration.<sup>287</sup> Trademark experts from the European Economic Community countries have drafted a trademark convention, but many policy questions remain unanswered, including whether U.S. corporations will be eligible for full or at least partial participation in the system. As a result, the entire convention rests in limbo. The Benelux countries have taken the most novel approach to international trademark law, supplanting their current national trademark laws with one unified, international system.<sup>288</sup> The impact of this decision is still unknown and virtually insignificant when compared to the volume of counterfeiting that passes no where near the Benelux countries.

#### B. *The Anticounterfeiting Code under the General Agreement on Tariffs and Trade*

This proposed anticounterfeiting code ("the Code"), sponsored primarily by the International Anticounterfeiting Coalition ("the Coalition"), is probably the most progressive development in the international offensive against counterfeiting. However, partisan politics have forestalled its adoption.

Negotiations in this area began during the Tokyo Round of Multilateral Trade Negotiations ("MTN") in September 1973. The Tokyo Round was the seventh major MTN since the end of World War II aimed at liberalizing world trade through reductions in tariffs and the lowering of non-tariff barriers. The negotiations were conducted under the General Agreement on Tariffs and Trade ("GATT") which is the principal mechanism by which governments affect international trade. Consequently, beginning in May 1978, a diplomatic initiative was instituted on behalf of the Coalition to introduce the subject of counterfeiting into the MTN. These efforts were rewarded in July 1978 when the Geneva negotiations agreed to a communique which contained an explicit undertaking "to seek actively international agreement designed to strengthen rules and procedures to govern cases of trade in counterfeit goods."<sup>289</sup> After further negotiations, an agreement

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<sup>285</sup> The United States has been a signatory to a series of inter-American trademark conventions entered into from 1910-1929. These conventions include provisions similar to those of the Paris convention for the protection of trademarks, trade names, and indications of origin. These conventions have largely become superfluous since most of the states involved are not also signatories to the Paris convention. The United States is a party to three conventions involving different countries: the Buenos Aires Convention, 39 Stat. 1675, T.S. No. 626, 1 Bevans 772 (Bolivia, Ecuador, and Uruguay); the Santiago convention, 44 Stat 2494, T.S. No. 751, 2 Bevans 395 (1923)(Brazil and the Dominican Republic); and the Washington Convention, 46 Stat. 2907, T.S. No. 833, 2 Bevans, 124 L.N.T.S. 357 (1929)(Columbia, Cuba, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, and Peru). Uruguay, Brazil, the Dominican Republic, Cuba, and Haiti are all signatories to at least one version of the Paris convention.

<sup>286</sup> Kaikati and LaGarce, *supra* note 15, at 60.

<sup>287</sup> *Id.*

<sup>288</sup> *Id.*

<sup>289</sup> DRAFT AGREEMENT ON MEASURES TO DISCOURAGE THE IMPORTATION OF COUNTERFEIT GOODS, reprinted in Appendix G, USITC PUBLICATION 1479, *supra* note 28, at 135.

on a text was reached between the United States and the European Economic Community in July 1979.<sup>290</sup> The Code still has not been adopted by the GATT membership.

If adopted, the Code would enable trademark owners to seek the assistance of public authorities in all signatory countries to intercept and enforce forfeiture of all shipments of counterfeit merchandise seeking customs clearance.<sup>291</sup> It is unclear what real effect the Code would have on counterfeit sales within the United States since the United States has already implemented the basic seizure and forfeiture provisions of the proposed Code in the 1978 Amendment to the Tariff Act of 1930.<sup>292</sup> This amendment, which does not prevent trafficking in counterfeit goods once they clear Customs and does not reach the domestic counterfeit market at all,<sup>293</sup> requires the adoption of penal sanctions for domestic possession or sale of counterfeit goods and is unlikely to be adopted soon as discussed above. There is also a trend within the Coalition itself to extend the coverage of the Code, even before it has been adopted, to the counterfeiting of copyrights and patents.<sup>294</sup> Such an extension would dilute domestic resources specifically targeted against trademark counterfeiting, much as the breadth of the Lanham Act inhibits proceedings against the counterfeiter.<sup>295</sup> The Code also places the duty of investigation and prosecution on the trademark owner, like the Lanham Act, instead of attempting to institute public, criminal sanctions. While the Code represents a step, however short, in the right direction, even its provisions that will produce predictably limited results against counterfeiters remain in a political limbo within the organs of the GATT.

### C. *The Failure of International Agreements to Stem the Tide*

The common thread of inadequacy that runs through all the existing trademark agreements is that none are specifically designed to combat the increasing sophistication of the modern commercial counterfeiter. While registration is provided to prevent the unintentional use of another's mark and to provide priorities in disputes about ownership, registration is no barrier to the counterfeiter, who usually picks the most well-known trademarks in order to make the highest profit. While the proposed Code deals specifically with counterfeiting, it relies upon the efficiency of domestic authorities to seize counterfeit goods, a reliance that is naive given the lackadaisical approach most governments, including the United States, have taken towards the problem. The best deterrent to counterfeiting, criminal penalties, has not been proposed under any current or planned agreement.

Even when domestic laws are changed as a result of the accumulation of international pressure on an offending nation, the reforms are generally superficial and fail to significantly frustrate counterfeiting operations. For example, Taiwan's new trademark counterfeiting law, The Rules for the Prevention of Counterfeits and Designation of False Place of Origin,<sup>296</sup> enacted due to pressure from manufacturing nations, including the

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<sup>290</sup> Walker, *supra* note 7, at 121-22.

<sup>291</sup> Rakoff and Wolff, *supra* note 4, at 177.

<sup>292</sup> *Id.* For a discussion of the relevant seizure provisions, see *supra* text accompanying notes 138-45.

<sup>293</sup> *Id.* at 177.

<sup>294</sup> Walker, *supra* note 7, at 130.

<sup>295</sup> *Hearings on S. 2428, supra* note 5, at 71.

<sup>296</sup> Pow and Lee, *Taiwan's Anti-Counterfeit Measures: A Hazard for Trademark Owners*, 72 TRADE-MARK REP. 157 (1982) (provides a comprehensive analysis of the new statute).

United States, is a legal minefield for legitimate trademark owners.<sup>297</sup> While trademark owners attempt to comply with a myriad of new and confusing regulations surrounding registration and customs laws, certain Taiwanese counterfeit manufacturers, confident of the growing legitimacy of their activities, have started actively promoting their counterfeit goods in exhibitions alongside foreign manufacturers of legitimate goods.<sup>298</sup>

It is unreasonable to assume that Taiwan<sup>299</sup> or any other nation will effectively respond to United States pressure to change their domestic trademark laws when it is as yet unclear whether even the United States has been able to act effectively with regard to the problem. Reform begins at home, and at the moment, no new initiatives within the United States or abroad seem to be gaining the type of international consensus necessary to make a serious dent in the counterfeiter's expansionist plans.

#### IV. CONCLUSION

Despite the seriousness of the problems created by trademark counterfeiting throughout the world, the United States has failed to take effective action against the flood of illegal counterfeits making their way into this country. The 1982 Trademark Counterfeiting Act was stagnated in Congress for many years. Election year politics and the enforcement priorities of the executive have left the future effectiveness of the 1983 Trademark Counterfeiting Act unclear. Action on the international front is similarly inconclusive. The implementing legislation for the Trademark Registration Treaty, and the Anticounterfeiting Code under the General Agreement on Tariffs and Trade remain in political limbo.

Each day the number of defrauded consumers grows. The sales of legitimately produced goods falls as markets are slowly bled dry by counterfeiters. Daily, manufacturing jobs within the United States are exported abroad. The death toll from those who unknowingly put their lives into the hands of counterfeit goods continues to mount. To date, there have been no major accidents with a massive, shocking loss of life, only small accidents quickly reported by the media and then promptly forgotten by all except the grieving families involved. However, unless the paralyzed governments of the world can stop arguing and take strong action against those who defraud with trademarks, the arrogance of modern counterfeiters makes such a disaster possible in the near future.

*Robert J. Abalos*

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<sup>297</sup> *Id.* at 158-60.

<sup>298</sup> *Id.* at 161.

<sup>299</sup> Taiwan is persistently criticized by world opinion for its failure to act against counterfeiting. This is not unnecessary or unfair proselytizing; Taiwan is the world's leading counterfeit exporting nation. *See supra* text accompanying notes 54-55.