LEGISLATIVE AND NON-LEGISLATIVE APPROACHES TO DETERRING PRODUCT COUNTERFEITING

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Abstract: Product counterfeiting has been a fast-growing problem in the U.S. economy. As a solution, Congress enacted several statutes to deter illegal counterfeiting. Nevertheless, the effectiveness of Congress’ efforts is questionable. To strengthen the deterrence effect, legislators should consider amending current laws to punish consumers and implementing alternative measures such as track and trace technologies. This approach would better protect businesses and consumers by expanding oversight responsibilities, creating barriers against counterfeit products, and changing public perception of counterfeit goods.

INTRODUCTION

Purse parties were a common occurrence in suburban America throughout the early 2000s.¹ These parties consisted of guests, who were mostly women, gathering in private residences to purchase counterfeit luxury handbags for fractions of their genuine counterparts’ prices.² Most participants were aware that they were making a counterfeit purchase.³ The fact that laws prohibiting these purchases are not heavily enforced could contribute to the prevalence of these parties.⁴ Today, the public perception that the purchasing counterfeit goods is not a

² See Dianna Michelle Martinez, Comment, Fashionably Late: Why the United States Should Copy France and Italy to Reduce Counterfeiting, 32 B.U. INT’L L.J. 509, 535 (2014) (suggesting that buyers should be aware that they are purchasing counterfeit purses due to the significant price difference).
³ See id. at 530–31 (explaining motives for purchasing counterfeits).
⁴ Amendolara, supra note 1.
crime has not changed, and the counterfeit problem is becoming a serious threat to the U.S. economy.\(^5\)

A counterfeit is any good using a validly registered trademark without authorization.\(^6\) Today, legislation—including the Lanham Act, Trademark Counterfeiting Act, and Stop Counterfeiting of Manufactured Goods Act—protects businesses and individuals from falling victim to product counterfeiting.\(^7\) Despite the legislative effort, product counterfeiting is estimated to cost the U.S. economy $600 billion each year.\(^8\) In light of this issue, this essay discusses the problems associated with the current product counterfeiting scheme and suggests alternative defense strategies to further protect businesses and consumers.\(^9\)

### I. THE IMPACT OF COUNTERFEIT GOODS

The U.S. Department of Commerce estimated that intellectual property (IP) focused industries represent approximately fifty percent of U.S. exports and forty percent of the nation’s economic growth.\(^10\) Accordingly, product counterfeiting is a critical problem for these IP industries and poses major risks to the health and safety of consumers who use counterfeit products.\(^11\) In addition to these concerns, international criminal organizations have been using counterfeit goods to fund illicit activities such as forced labor and drug trafficking.\(^12\)

The financial loss from product counterfeiting has a major impact on the U.S. economy.\(^13\) Monetary losses are estimated to be $600 billion on an annual basis.\(^14\) Although some losses are tangible, others are not.\(^15\) For example,

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\(^7\) See Peggy E. Chaudhry et al., Evidence of Managerial Response to the Level of Consumer Complicity, Pirate Activity, and Host Country Enforcement of Counterfeit Goods: An Exploratory Study, 17 MULTINATIONAL BUS. REV. 21, 28 (2009) (stating that the acts provide forms of legal recourse).


\(^9\) See Amendolara, supra note 1, at 833–34 (mentioning alternative strategies that companies use to combat product counterfeiting).


\(^11\) Chaudhry, supra note 7, at 22 (mentioning health and safety anxieties surrounding counterfeit products).


\(^13\) See Martinez, supra note 2, at 513 (discussing the effects of counterfeit goods on the U.S. economy in terms of lost jobs and revenues).


\(^15\) See Martinez, supra note 2, at 513–14 (noting that business reputations are often damaged).
reputational damages occur when customers associate counterfeit products with the brand or when a customer confuses a counterfeit product with the genuine product.\textsuperscript{16} The impact of reputational damage becomes more severe when manufacturers’ ability to compete in an international market is hampered by counterfeit products.\textsuperscript{17}

II. THE TRADITIONAL APPROACH TO PRODUCT COUNTERFEITING

Congress has passed legislation in response to trademark holders suffering from the sale of counterfeit goods.\textsuperscript{18} In addition, federal agencies have worked together to combat counterfeit goods entering the market.\textsuperscript{19} Numerous problems inherent to the deterrence of product counterfeiting stymie the results of these efforts.\textsuperscript{20} Therefore, companies have begun to implement unique strategies of their own in order to further combat the effects of product counterfeiting.\textsuperscript{21}

A. The Legislative Approach

The Lanham Act of 1946 aims to protect businesses and consumers from the negative effects of product counterfeiting.\textsuperscript{22} The statute lays out the federal standard for civil counterfeiting claims.\textsuperscript{23} Under Section 32 of the Lanham Act, when a person uses or imitates another’s trademark in a way in which consumers would likely experience confusion in selecting their desired products, they are liable for product counterfeiting.\textsuperscript{24}

\textsuperscript{16} Id. at 513–14.
\textsuperscript{18} See John Freeman & John H. Bieber, United States: Lee v Tam: Supreme Court Hears Oral Arguments on Lanham Act Section 2(A) Prohibition of Registration of Disparaging Marks, MONDAQ (Feb. 8, 2017), http://www.mondaq.com/unitedstates/x/566482/Trademark/Lee+v+Tam+Supreme+Court+Hears+Oral+Arguments+On+Lanham+Act+Section+2A+Prohibition+Of+Registration+Of+Disparaging+Marks (noting that the purpose of the Lanham Act is to allow mark registrants to protect their investments in their marks).
\textsuperscript{19} See Testimony of Allen Gina, supra note 10 (describing joint operations between federal agencies, such as between CBP and ICE).
\textsuperscript{20} See, e.g., Douglas W. Stearn, Deterring the Importation of Counterfeit Pharmaceutical Products, 59 FOOD & DRUG L. J. 537, 550 (2004) (stating that lenient sanctions for counterfeiting incentivize counterfeiters to continue their counterfeiting activities); Amendolara, supra note 1, at 809 (suggesting that counterfeiters have an incentive to evade the law and develop strategies to do so).
\textsuperscript{21} See, e.g., Amendolara, supra note 1, at 833–34 (offering examples of strategies that companies are using to decrease counterfeiting).
\textsuperscript{22} See 15 U.S.C. § 1114(1) (2012) (stating that anyone engaged in production or distribution of a counterfeit good is liable to the mark’s registrant); Chaudhry, supra note 7, at 5 (stating that IP laws are designed to provide legal recourse); Freeman & Bieber, supra note 18 (noting that a purpose of the Lanham Act is protecting consumers and mark registrants).
\textsuperscript{23} See § 1114(1) (stating that any person shall be liable for counterfeiting).
\textsuperscript{24} Id. § 1114(1).
In addition, Congress enacted the Trademark Counterfeiting Act of 1984 (TCA). The TCA strengthened the Lanham Act by making the trafficking of a counterfeit mark a federal crime. Furthermore, the Stop Counterfeiting in Manufactured Goods Act and the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (Pro-IP Act) were enacted to provide additional deterrence against product counterfeiting. The Pro-IP Act expanded the scope of counterfeit-protection for copyrights, improved interagency strategic planning, and created the Intellectual Property Enforcement Coordinator to strengthen the enforcement of rules.

Congress brought criminal organizations into the purview of counterfeiting legislation by enacting the Anticounterfeiting Consumer Protection Act of 1996 (ACPA). The ACPA expanded the scope of racketeering and money laundering statutes to include individuals trafficking counterfeit goods and violating trademark laws. The ACPA not only permits statutory damages in civil cases, but it also allows for more extensive seizures of counterfeit goods. In addition to the aforementioned statutes, Congress has continued its efforts in extending product counterfeiting liability in subsequent legislation. These efforts include enacting the Digital Millennium Copyright Act, Theft of Trade Secrets Clarification Act of 2012, and the Copyright Cleanup, Clarification, and Corrections Act of 2010.

B. The Executive Approach

Along with the legislative branch, the executive branch also contributes to the enforcement of intellectual property legislation through the creation of

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28 Prioritizing Resources and Organization for Intellectual Property Act §§ 201–02, 301, 303.
30 Anticounterfeiting Consumer Protection Act § 3; see Amendolara, supra note 1, at 801–02 (explaining that the law’s expansion was a natural progression for the legislature).
32 See Masnick, supra note 31 (listing legislation intended to strengthen intellectual property rights).
enforcement agencies. In 2010, the Obama administration created the Intellectual Property Enforcement Coordinator (IPEC), an anti-counterfeiting enforcement agency, which in turn established the first Joint Strategic Plan (JSP) tasked with reviewing existing anti-counterfeiting laws and identifying legislative recommendations to ensure their effectiveness. In the same year, a number of federal agencies—including the Federal Bureau of Investigation (FBI), Customs Border Patrol (CBP), and the Immigration and Customs Enforcement (ICE)—worked together to create the Operation Network Raider—an initiative targeting the illegal distribution of counterfeit hardware from China.

In December 2016, IPEC submitted to Congress an updated JSP outlining strategic enforcement plans through 2019. The document provided a detailed overview of product counterfeiting and suggested effective mitigation strategies. The JSP urged Congress to adopt a “Whole of Government” approach aimed at strengthening intellectual property enforcement from the bottom up by using collective resources to work with the private sector and encourage innovation.

In support of the ideas set forth in the JSP, Bruce Foucart, the Director of ICE’s Intellectual Property Rights Coordination Center, called for collective action against intellectual property infringement at a hearing before Congress in 2016. Foucart recognized that the current efforts to deter product counterfeiting were not sufficient to combat intellectual property infringements. To enhance enforcement, Foucart called for coordinated efforts between relevant agencies, law enforcement, and the affected industries. Through the executive effort, in 2017, CBP and ICE executed more than 34,000 seizures of pirated and counterfeit goods, worth an estimated $1.35 billion.

34 See, e.g., Testimony of Allen Gina, supra note 10 (citing CBP as an agency under the executive branch that has contributed to the enforcement of IP laws).
35 Id.
36 Id.
38 See id.
39 See id. (suggesting that the government promote supply-chain accountability, implement policies encouraging innovation, and use government resources to deter trade secret appropriation).
41 See id. (recognizing that no agency can succeed alone, and calling for further collective action).
42 See id. (stating that all relevant agencies must work together and with industry).
C. Problems in the Current Product Counterfeiting Scheme

Despite laws aimed at deterring product counterfeiting and enforcement agencies seeking to prevent product counterfeiting, the efforts of the government and its agencies have been relatively ineffective.\(^{44}\) To put deterrence successes in perspective, if CBP and ICE seize counterfeit goods worth one billion dollars, that amount may only be a mere fraction of the overall monetary cost of product counterfeiting.\(^{45}\) Furthermore, most counterfeit products in the United States are manufactured outside of the United States in other countries, like China.\(^{46}\) Because international counterfeiters face a minimal risk of conviction in other countries, the incentive to engage in product counterfeiting is very high.\(^{47}\) Furthermore, underlying local protectionism is apparent when it comes to prosecuting international counterfeiters.\(^{48}\) Many countries deliberately avoid addressing the issue of international product counterfeiting because the profits generated from counterfeiting benefit their economies.\(^{49}\) The World Health Organization (WHO) has argued that a lack of international enforcement and lenient penal sanctions actually encourages product counterfeiting.\(^{50}\)

The issue is further compounded by elusive techniques of counterfeiters.\(^{51}\) For example, instead of distributing counterfeit products in their respective countries, many counterfeiting organizations focus solely on exportation.\(^{52}\) This technique is performed deliberately to avoid the application of local anti-counterfeiting law.\(^{53}\) Counterfeiters are also knowledgeable of CBP’s mechanisms to detect registered trademarks.\(^{54}\) This knowledge enables counterfeiters to create loopholes and distribute products with counterfeit marks.\(^{55}\) In addition, there are many more sophisticated counterfeiting strategies such as importing the merchandise under a different name, mixing fake items inside boxes with authentic items, and assembling the final product only after the counterfeit components enter the United States.\(^{56}\)

\(^{44}\) See Amendolara, supra note 1, at 834 (stating that progress in enforcement of intellectual property laws has been limited).
\(^{45}\) Martínez, supra note 2, at 513 (stating statistics demonstrating the disparity between mitigation efforts and the overall impact of counterfeiting).
\(^{46}\) Amendolara, supra note 1, at 816.
\(^{47}\) Stearn, supra note 20, at 550.
\(^{49}\) See id. at 778 (stating that local governments have economic interests in counterfeiting).
\(^{50}\) Stearn, supra note 20, at 550.
\(^{51}\) See Amendolara, supra note 1, at 809–10 (explaining that counterfeiters have become experts at evading the law).
\(^{52}\) Stearn, supra note 20, at 550.
\(^{53}\) Id.
\(^{54}\) See Steve Brachmann, PopSockets Wins General Exclusion Order Against Infringing Grips at ITC, IPWATCHDOG (Aug. 1, 2018), http://www.ipwatchdog.com/2018/08/01/popsockets-general-exclusion-order-infringing-grips-itc/id=99638/ (stating that counterfeiters know not to use registered trademarks that will be detected by CBP).
\(^{55}\) See id. (noting a strategic defense to counter criminal strategies).
\(^{56}\) Amendolara, supra note 1, at 809–10; Martínez, supra note 2, at 522–23.
According to the WHO, the pervasiveness of counterfeit goods is difficult to measure for multiple reasons. For instance, counterfeiters’ sophisticated techniques often go undetected. In addition, lack of public perception and weak regulatory systems make counterfeiting even harder to quantify. Executives at Kate Spade, a popular American fashion brand, suspect that the ratio of certain counterfeit products to their legitimate counterparts has become one-to-one. According to the CEO of a popular Canadian outwear brand, Canada Goose, the immense scope of the counterfeiting problem is largely a result of one factory shutting down to simply have a new one open up next door.

Another problem is the public’s perception of product counterfeiting. The general public has a view that product counterfeiting is not a serious problem because it is a victimless crime. This misperception is largely due to the prevalence of counterfeits in American society. Americans are exposed to the sale of counterfeit products in malls, on street corners, and even in front of the police. The act of walking on Canal Street in New York City, where counterfeit products are openly available on sidewalks down the entire street, epitomizes the prevalence and lax attitude towards counterfeiting in America.

D. Alternative Defenses

Recently, many companies have shifted away from relying on the law for protection and have instead begun establishing alternative private sector defenses to prevent product counterfeiting. For example, Canada Goose offers an online tool that allows customers to check whether an advertised product is authentic. Similarly, the Recording Industry Association of America started its own initiative to collaborate with law enforcement to identify counterfeit merchandise.

Serialization, a track and trace technology, is also an effective alternative defense strategy. By serializing and tracing every product’s movements in the

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57 See Stearn, supra note 20, at 539 (discussing difficulties measuring counterfeit pharmaceuticals).
58 Chow, supra note 48, at 779; Stearn, supra note 20, at 550.
59 Martinez, supra note 2, at 530–31.
60 Id. at 521.
62 See Amendolara, supra note 1, at 818–19 (discussing customers influencing counterfeiting by viewing it as a nonproblematic activity).
63 Martinez, supra note 2, at 530.
64 See Amendolara, supra note 1, at 819 (suggesting that Americans do not think that counterfeiting is a problem when it takes place in malls and in front of law enforcement).
65 Id.
66 See Martinez, supra note 2, at 510 (describing Canal Street as a place notorious for the sale of counterfeit goods).
67 See, e.g., Amendolara, supra note 1, at 833–34 (providing examples of companies working with law enforcement).
68 Deschamps, supra note 61.
69 Amendolara, supra note 1, at 833–34.
70 See Usha Sharma, It is a Major Step for Anti-Counterfeiting, EXPRESS PHARMA (Oct. 3, 2018), http://www.expressbpd.com/pharma/management-pharma/it-is-a-major-step-for-anti-
supply chain, serialization helps prevent counterfeit goods from entering the supply chain.71 Beginning in February 2019, most prescription medicines in the European Economic Area will be impacted by serialization.72 This process will utilize code verification on packaging and include the option to measure product weight to ensure consistency.73 The serialization technique will allow an oversight agency to track and maintain the safety of prescription drugs.74 By requiring manufacturers, packagers, and pharmacists to scan the drugs at each point of the supply chain, the oversight agency will be able to utilize the data to ensure product authenticity.75

PackVerifi is an anti-counterfeit technique created by Pyrotec PackMedia for tracking goods in the supply chain.76 This solution uses a cloud-based track and trace technology that utilizes consumer efforts to identify counterfeits.77 With this technology, consumers can use their smartphones to scan a code on a product and send it to PackVerifi’s cloud-based system.78 Upon receiving the code information, the system checks the code and verifies whether the product is a counterfeit good.79 Through the information provided by customers, PackVerifi allows product manufacturers to identify and track where counterfeit products are located in real-time, thus providing them with the opportunity to remove counterfeit goods from the market.80

Innovative legislative strategies can also deter product counterfeiting.81 One major critique on the current counterfeit legislation is consumers’ indifference toward counterfeit goods.82 Currently in the United States, individual consumers who purchase counterfeit products are not criminally prosecuted.83 In France and Italy, however, criminal liability extends to individual consumers and sanctions are enforceable on individuals who enter the border with counterfeit goods.84 To strengthen the enforcement of these rules, both countries have committees that

counterfeiting-parag-kothari/405976/ (using serialization to exemplify track and trace technology, which track and verify products).
71 See The Effects of Counterfeiting, BIZCOMMUNITY (June 14, 2018), https://www.bizcommunity.com/Article/196/178/178276.html [hereinafter Effects of Counterfeiting] (suggesting that track and trace technologies support traceability through the supply chain).
72 Sharma, supra note 70.
73 Id.
74 Id.
75 See id. (discussing the ability of new technologies to efficiently manage communications across the supply-chain and ensure full traceability).
76 Effects of Counterfeiting, supra note 71.
77 Id.
78 Id.
79 Id.
80 See id. (explaining that smartphone users can use an app to identify counterfeit goods and allow brand managers to locate them).
81 See Martinez, supra note 2, at 532–33 (arguing that consumer liability would help to mitigate damages arising from product counterfeiting).
82 See id. at 533 (arguing that the current perspective amongst consumers makes it unlikely that counterfeit purchases will cede without a legal or moral deterrent on the consumer).
83 See id. at 533 (suggesting that liability is not extended to consumers in the United States).
84 See id. at 529 (stating that Italy and France penalize both the supply and demand sides of the counterfeit sale).
focus on warning consumers about the consequences of possessing counterfeit goods.\(^{85}\)

### III. LEGISLATION IS NOT ENOUGH

More troubling than the economics of the situation is the realization that counterfeiting is a direct threat to national security in multiple ways.\(^ {86}\) Counterfeit goods have been linked to funding terrorist organizations and have been found in active military equipment, such as radars designed to detect incoming missiles.\(^ {87}\) The threats arising from counterfeiting are prevalent and should be taken more seriously by the legislature, the public, and companies.\(^ {88}\)

There are at least three avenues for limiting the effects of product counterfeiting: changing public perception, expanding the scope of current laws, and encouraging companies to adopt in-house strategies.\(^ {89}\) The effort to expand current laws and change public perception should accompany one another.\(^ {90}\) To maximize the result, the legislature should expand laws to impose criminal liability on consumers, and companies should employ advertisements to publicize the social risks associated with the possession of counterfeit products.\(^ {91}\) One potential criminal penalty could be a flat fee for every detected possession of a counterfeit good.\(^ {92}\) In addition, there should also be a fee payable to the appropriate company that is at least equivalent to the market retail price of the legitimate product.\(^ {93}\) Together, these fees will cost more than the market price for the counterfeit product and might ultimately discourage consumers from purchasing counterfeits.\(^ {94}\)

In order for the expansion of current laws to effectively deter consumers from purchasing counterfeit goods, future legislation should extend liability to simple possession of a counterfeit good.\(^ {95}\) The law would effectively impose the

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\(^{85}\) See id. (discussing the steps that Italy and France took to raise public awareness of their laws).


\(^{87}\) Id.; Martinez, supra note 2, at 514.

\(^{88}\) See Statement of Brian Toohey, supra note 86 (calling on Congress to take the necessary steps to prevent counterfeit goods from ending up in the military’s supply-chain).

\(^{89}\) See Martinez, supra note 2, at 533 (arguing that a lack of consumer liability is a factor contributing to counterfeiting and that raising consumer awareness would help decrease counterfeiting); Effects of Counterfeiting, supra note 71 (suggesting that companies should adopt their own strategies to combat counterfeiting).

\(^{90}\) See Martinez, supra note 2, at 533 (suggesting that updated laws need to be coupled with public awareness campaigns for both fairness and education purposes).

\(^{91}\) See id. at 537 (arguing that imposing penalties on consumers will decrease the appeal of counterfeit goods).

\(^{92}\) See id. (arguing that the Italian and French consumer penalties are examples of helpful deterrents of counterfeit purchases).

\(^{93}\) See id. at 532 (suggesting a need to compensate industries concerned with lost revenues and that there is a diminished capacity to innovate and expand).

\(^{94}\) See id. at 530 (arguing that the United States should impose fines on consumers that are higher than the cost of the genuine product).

\(^{95}\) See id. at 525 (arguing that sanctions should not be limited to the act of purchasing).
burden of ensuring product legitimacy on the consumer. Additionally, penalties should include potential jail time for repeat offenders who intentionally disregard the law. These measures would help to create a stigma, not just surrounding the purchase of counterfeit products, but also the ownership of them. Accordingly, the stigma would help to discourage counterfeit purchases and ultimately limit the supply of counterfeits in the American market.

CONCLUSION

In the United States, there are many pieces of legislation that make product counterfeiting within the United States punishable by severe sanctions. These sanctions, however, have minimal impact because the majority of product counterfeiting issues arise in the international market. The risk posed to the general public, along with the economic burden inherent to the counterfeit trade, should encourage public officials to take further action. Current legislation is not enough. The government should approach the problem from all avenues, and the private sector should continuously invest in its own defense strategies as well.


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96 See id. at 528 (discussing an Italian law that requires consumers to ascertain a product’s origin).
97 See id. (providing the French model as an example of a system imposing jail time).
98 See Amendolara, supra note 1, at 825 (suggesting that laws creating consumer liability will produce a stigma associated with counterfeit goods).
99 See Martínez, supra note 2, at 532 (providing a former copyright law as an example of imposing consumer liability to decrease demand for counterfeits).