

Fighting Back

A 10-Point Plan to Protect Your Brands from Counterfeiters

By James R. Davis II

The supreme end of education is expert discernment in all things—the power to tell the good from the bad, the genuine from the counterfeit, and to prefer the good and the genuine to the bad and the counterfeit.

—Dr. Samuel Johnson

Counterfeits are all around us. Pirated goods that once were hawked from the backs of vans and in dark alleys are now showing up on supermarket shelves, in our medicine cabinets, in baby formula, and in commercial aircraft. Many of today's counterfeiters are well-funded and associated with organized crime and terrorists. In a perfect world, IP owners would have unlimited budgets to protect their brands and consumers from counterfeiters. But as the recent economic crisis has reminded us, this is not a perfect world. Very few companies or industries have been spared the effects of the global slowdown and almost everyone is coping, at least in part, by paring budgets to the bone and containing costs. Drastic times call for drastic measures, but brand owners should never lose sight of the bigger, long-term picture. Short-sighted companies that go too far in slashing their IP enforcement budgets may one day discover that calculating counterfeiters have seized the opportunity and seriously—or irreparably—damaged brand equity that took generations to create.

Most counterfeiters today are shrewd and constantly searching for unprotected or underprotected brands to exploit, but, like most criminals, they prefer the path of least resistance. Putting criminals behind bars and eradicating all pirated goods are noble goals, but an IP enforcement strategy can be successful even if it only disrupts the counterfeiters' business operations enough to persuade them to move on to easier targets. The best brand managers adjust their IP enforcement strategies periodically in response to the inevitable changes in the economy, technology, marketplace, and, perhaps most important, the counterfeiters' tactics. It's a proverbial game of cat and mouse that requires flexibility and commitment; a stale program provides a false sense of security and is vulnerable to circumvention.

Following are 10 general strategies for combating counterfeiters. The vast majority of companies do not have the need, resources, or commitment to adopt and carry out all 10. But don't let perfection be the enemy of progress; adopting just one or two strategies is far better than taking no action.

1. Register Your Trademarks

Registration of trademarks is the cornerstone upon which an IP strategy should be built. In many countries—frequently those

where the biggest problems arise—ownership of a trademark registration is an absolute prerequisite to enforcing rights against infringers and counterfeiters. Indeed, brand owners are often shocked to learn that a country's customs and legal systems offer no relief against a blatant counterfeiter because the violated trademark is not registered (and don't assume the counterfeiters are ignorant of this fact). Even in countries where common law rights are recognized, there are significant benefits to owning a trademark registration, including the availability of enhanced legal remedies and a presumption of validity and ownership of the trademark.

If feasible, brand owners shouldn't limit their registration efforts to countries where they currently conduct business; they also should consider registering in countries where they intend to operate, where they manufacture and export products (you don't want customs officials to prohibit you from exporting your products), and where counterfeiting activity is suspected.

2. Record with Customs

It's no secret that Asia is the source of the lion's share of counterfeit products sold in the United States. According to U.S. Customs and Border Protection, \$260 million worth of counterfeit products were seized at various ports of entry in 2009. Over \$200 million of that amount, or 79%, originated in China. Customs officials in other countries report similar statistics.

Customs operations in the United States and abroad serve as the frontline defense to ensure that at least some of the counterfeit goods never arrive at their destination. Given how inexpensive and easy it is to record trademarks with customs, there is no excuse for not taking advantage of this valuable resource. At the very least, brand owners should record their registered trademarks with U.S. Customs and Border Protection. Brand owners also have the option of being more proactive by meeting with customs officials and providing specific information and training, e.g., how to differentiate between authentic and counterfeit goods. Similar recordation processes and training opportunities are available in many other countries.

By recording your trademarks with customs you alert officials to your IP and enlist government assistance in identifying and seizing counterfeit products. This not only increases the counterfeiters' risk and costs, but the information gleaned from customs seizures in the United States and abroad can shed valuable light on the sources and flow of counterfeit activity, who is importing and exporting the products, and even how the participants are trying to evade detection, e.g., by shipping labels, packaging, and counterfeit products in different containers for assembly elsewhere.

3. Monitor and Investigate

You have to identify a problem before you can address it. A serious anticounterfeiting program should incorporate routine investigations of businesses and regions where counterfeit activity is suspected. While much of this activity can occur from a remote location, there often is no substitute for putting feet on the ground. Brand owners should, at a minimum, monitor the following.

Trademark Offices

Monitoring activity in trademark offices around the world is a critical component of an IP enforcement strategy. And, thankfully, modern technology has made the process relatively simple and inexpensive. Companies that are derelict in their monitoring efforts are often surprised to learn that their trademarks already are registered by third parties. This can create costly complications for the trademark owner and impair its ability to conduct business and enforce its rights in the affected countries. Early detection is crucial and that is why proactive monitoring is essential. The goal is to identify potentially infringing trademark applications before they mature into registrations, and take appropriate legal action to challenge the applicant.

The Marketplace

Brand owners should monitor and investigate territories, countries, and markets where counterfeit activity is suspected. It sometimes is appropriate to take action against a small retail operation dealing in counterfeits, but the goal should be to move as far up the distribution chain as possible, from the street vendors all the way to the primary distributors and manufacturer. Patience is a virtue; investigations can be lengthy undertakings that take you down paths and to places you never anticipated. To manage costs companies can sometimes pool their resources and launch a joint investigation of a particular company or region.

Most brand owners also have an underutilized armada of prospective investigators. Employees, distributors, and affiliates can be educated and trained to identify and report suspicious activity and instances of consumer confusion. Consumers can also be an important facet of an IP enforcement strategy. By creating a dedicated telephone number or e-mail address where consumers can report suspicious activity, brand owners can obtain critical and timely information at minimal cost. The Business Software Alliance, for example, makes it easy for consumers to report counterfeit activity (and qualify for a reward) via a toll-free number or a "Report Piracy" button at the BSA's Internet home page.

Affiliates and Supply Chain

Counterfeiters are no longer relegated to manufacturing in abandoned warehouses and peddling their goods in seedy markets. Many counterfeit products move through legitimate trade channels, often with the knowledge and assistance of the IP owner's own manufacturers, distributors, retailers, and licensees. It is a risky proposition to put blind trust in your business affiliates. To quote Ronald Reagan, "Trust, but verify."

As described in more detail below, each affiliate should

be required to enter into a formal, written agreement that sets forth zero-tolerance policies concerning the permissible manufacture, marketing, distribution, and sale of the brand owner's property. The policy should be enforced with routine, unannounced, in-person audits to ensure that affiliates are not, for example, producing excess inventory for unauthorized sale, shipping unlabeled products, or selling damaged products.

Because of the existing relationships, and the leverage that brand owners typically have over their affiliates, these on-site investigations are relatively easy to coordinate and carry out. By merely showing up for on-site inspections brand owners send a strong message and thereby reduce the risk of affiliate infidelities. These on-site visits are, therefore, an excellent and cost-effective way to ensure counterfeit products are not originating from and traveling within your own network.

The Internet and Domain Names

Legitimate companies are not the only ones using the Internet to market and sell products. The Web is teeming with black market activity and every brand owner should dedicate some resources to surfing the Internet for counterfeit activity.

Monitoring online auction sites like eBay and Alibaba is an inexpensive way of finding counterfeit products and identifying their source. After ordering products to confirm whether they are authentic, a brand owner may be able to move up the supply chain and find the ultimate source of the products. Brand owners should register with eBay's VERO program (it's free and easy) and similar programs provided by other commercial sites that allow you to report and terminate infringing auctions. Depending on the website's content, a brand owner may be able to take down a website pursuant to the Digital Millennium Copyright Act.

Brand owners also should monitor domain name activity and investigate any person who registers a domain name that incorporates a trademark or name. Additional searches should be done to determine whether seemingly inactive domain names are being used to send misleading spam e-mails. There are a variety of ways to investigate and identify domain name registrants, even those that use false Whois information or hide behind privacy services.

4. Take Legal Action

Setting snares with customs offices and investigators is a good start, but brand owners should be prepared to take legal action when counterfeiters are caught. Nothing will discourage a law enforcement or customs officer more than a brand owner who routinely disregards notices of infringement. After all, the ports and markets are full of counterfeit products and government officials shouldn't be expected to spend their resources and time protecting a brand if the IP owner has demonstrated little interest in taking action after a problem is reported.

Brand owners should not necessarily be scared away by the potential cost of taking action. The appropriate legal response

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in many countries can be as simple as filing documents confirming that the seized products are counterfeit and authorizing prosecution against the defendant. Litigation also need not be limited to civil or criminal lawsuits against the counterfeiters. Brand owners in the United States and abroad have been successful in lawsuits against third parties that harbor and facilitate counterfeit activity, including landlords and website operators.

5. Seek Formal Recognition as a Well-Known Mark

Some trademarks qualify for a wider scope of protection. Several countries, including Australia, Brazil, China, Japan, Mexico, and Russia, maintain official governmental lists of well-known or famous marks. While obtaining such status can be expensive and time-consuming, the long-term benefits often outweigh the costs. For example, owners of recognized well-known trademarks are granted broader protection (e.g., the ability to challenge third-party use of trademarks on unrelated goods) and are more likely to prevail in adversarial proceedings. While not available to every trademark owner, companies that believe their trademarks may qualify as well-known should consider taking advantage of this option.

6. Work with Local Authorities

Infringing and counterfeit activity around the world can be identified from investigations coordinated from a central location, but remedial and legal action occur at the local level. Brand owners should therefore enhance their anticounterfeiting efforts by forging relationships with local officials, including customs officers, law enforcement, prosecutors, the AIC (in China), and its equivalent.

Small gestures often are sufficient to generate positive results. Face-to-face meetings or, better yet, hosting a luncheon is an easy way to educate officials about your brands and show them that your company takes counterfeiting issues seriously. Most local law enforcement and customs officials will gladly attend a joint press conference to tout a recent seizure or other enforcement action. No matter the venue, periodically scheduling on-site meetings can create the goodwill that is necessary to open communications channels and get local officials to assist quickly when the next problem arises.

However, as is always the case when dealing with foreign officials, it is very important that these relationships be fostered in a way that does not violate anti-bribery or other laws, including the Foreign Corrupt Practices Act.

7. Utilize the Press

The press loves a good story and reporters are usually happy to attend press conferences and publish articles about seizures of counterfeit products and the prosecution of the perpetrators, particularly if, as is often the case, the counterfeit products pose a threat to consumers. Brand owners also should consider publishing periodic notices in local papers that warn against the trade in counterfeit goods. These press releases and notices serve the dual purpose of educating consumers and letting the counterfeiters know that they are being watched.

8. Make It Difficult to Copy Your Products and Packaging

It goes without saying that counterfeiters are more likely to be successful at manufacturing and passing off pirated goods when the authentic versions are easy to duplicate. Like the U.S. Treasury, brand owners should seek to stay one step ahead of counterfeiters by using technology and creativity to periodically modify their products and packaging.

Brand owners today have a plethora of technological innovations to mark their products in a way that is difficult to replicate, thereby simultaneously making it more expensive for counterfeiters to copy and also easier for customs officials, consumers, retailers, and others to identify counterfeits. For example, special markings, laser etchings, color-changing inks, and unique microfibers can be used on or in products and packaging. Holograms are increasingly being used on labels. The applicability of these services is almost limitless. Distinguishing information can be etched by laser onto bottles of vintage wine. Kellogg's is even experimenting with etching its cursive logo on individual pieces of cereal.

9. Keep Written Policies

Informal understandings and agreements are insufficient when it comes to something as important and complex as a global IP enforcement strategy. Brand owners should maintain written anticounterfeiting policies and guidelines. These policies should be distributed to employees and affiliates and you should encourage—if not require—all employees to be familiar with your international trademark and brand protection policies and the zero tolerance policy for violators.

In addition, all manufacturers, distributors, suppliers, and licensees and other affiliates should be required to enter into a written agreement regarding your intellectual property policies. This agreement can be in the form of a separate legal document, or it can be incorporated into each license, distributorship agreement, etc.

10. Be Active

No brand or company is an island. Brand owners can benefit by networking with each other and sharing resources, information, and ideas regarding anticounterfeiting efforts and strategies. This can be accomplished through informal relationships and global or national associations like the American Bar Association, International Anticounterfeiting Coalition, Intellectual Property Owners Association, International Trademark Association, and industry trade groups.

These organizations offer unique opportunities for networking, information sharing, efforts coordination, and cost sharing, as well as in-person or online workshops and seminars. Being active is a very effective way of staying on top of new developments in the effort against counterfeiting.

Governments and legislators are scurrying to address the numerous problems created by counterfeiters. As one of the primary victims of counterfeiters, brand owners should take an active role in the public debate and in shaping anticounterfeiting legislation and policies.

The Prioritizing Resources and Organization for Intellectual Property Act (Pro-IP Act) was passed in 2008.

Among other things, the Pro-IP Act increases the civil and criminal penalties for trademark and copyright infringement. The Act also established a new executive branch office, the Office of the United States Intellectual Property Enforcement Representative. Numerous companies and trade groups participated in getting this legislation passed.

In April 2010, the U.S. Trade Representative released a draft of the Anti-Counterfeiting Trade Agreement (ACTA) for public review. The summary comments provided with the draft describe ACTA as an initiative to bring together countries “that are interested in fighting counterfeiting and piracy, and to negotiate an agreement that enhances international co-operation and contains effective international standards for enforcing intellectual property rights.”

Summary

The foregoing suggestions are not intended to be an exhaustive list of all anticounterfeiting strategies; they are merely a starting point for evaluating, or creating, your own plan. Many options are surprisingly inexpensive and simple, essentially running on autopilot. Others require more time, resources, and commitment. Ultimately each brand owner must design its own strategy.

Counterfeiters threaten everyone and brand owners should proactively take steps to protect the goodwill associated with their IP. Taking precautions now to prevent counterfeiters from damaging your brand is a far superior business strategy than trying to repair your tarnished reputation after the damage is done. ■