



## Counterfeiting and Piracy: Federal Statutory, Criminal and Regulatory Tools

It is a common saying in the IP protection business that counterfeiting affects any business that owns a successful product. In fact, sales lost to counterfeiting are estimated to exceed six (6) percent of global trade. The United States economy alone loses billions of dollars annually through lost profits and sales tax avoided through unreported sales of counterfeit goods. Counterfeiting is not just a luxury goods problem. Counterfeiters also sell fake airline and automobile parts, drugs, electronics, computer servers, music recordings, and software.

Counterfeiting is akin to trademark infringement where piracy is a type of copyright infringement. Just as difficult as identifying a counterfeit product is deciding what laws and strategies to stop and prevent counterfeiting. There are a variety of federal civil statutes, criminal laws, and regulatory rules that can assist an IP owner in catching and preventing counterfeiting. Unfortunately, each tool comes with a price tag and drawbacks. This paper focuses on the identification of federal statutes and regulations that can stop and prevent counterfeiting, and recommends which tools to use in an anti-counterfeiting strategy.

### I. **Civil Statutes: The Lanham Act and the Copyright Act**

If counterfeiters are copying trademarked items, the Lanham Act, 15 U.S.C. §§ 1051 *et seq.*, provides several legal remedies.

**Merchant & Gould**  
An Intellectual Property Law Firm



### **Lanham Act: Ex Parte Seizures**

Owners of registered marks may apply for an *ex parte* seizure orders. *Ex parte* seizure orders are available to owners of registered trademarks when, absent such relief, the party requesting the relief will be irreparably harmed. An applicant must show a likelihood of success on the merits and irreparable harm absent the seizure. The applicant must also prove that the harm associated with denying its application is greater than the potential injury to the defendant. A trademark owner must also post a bond.

### **Lanham Act: Damages**

Actual and enhanced damages are provided for under § 1117(a)-(c) of the Lanham Act. Actual damages include lost sales or profits attributable to infringement. Trebled damages are authorized if the counterfeiter intentionally used the mark in commerce knowing that it was counterfeit and likely to deceive or confuse. In counterfeit cases, a trademark owner may also recover “statutory damages” in lieu of actual damages. Such damages are not less than \$500 or more than \$100,000 per counterfeit mark; for willful infringement, the fines can go up to \$1,000,000 per counterfeit mark. Attorney’s fees are allowed in “exceptional cases.”

### **The Copyright Act and Digital Millennium Copyright Act**

The Copyright Act, codified as 17 U.S.C. § 502, offers remedies similar to the Lanham Act. Courts may grant both temporary and final injunctions to “prevent or restrain infringement of a copyright.” The Digital Millennium Copyright Act (“DMCA”) provides

## **Merchant & Gould**

An Intellectual Property Law Firm



grounds to enjoin pirates that circumvent technology designed to prohibit piracy.

### **Piracy: Seizure and Forfeiture of Pirated Goods**

Section 503 of the Copyright Act authorizes a court to impound all infringing copies. Impounding during pending litigation is authorized on “such terms as it may deem reasonable.” Destruction is allowed upon final judgment. Section 509(a), on the other hand, provides for seizure of infringing copies and property used to make copies if the copying is for commercial advantage or financial gain.

The DMCA's provision for seizure of goods is similar to that of the Copyright Act. Pursuant to § 1203(b)(2), the court may order the impounding of any device or product while the action is pending. To impound goods, the court must have reasonable cause to believe the subject matter of the impounding was involved in a violation. After final judgment, a successful plaintiff can seek remedial modification or destruction of any violating device or product.

### **Heavy Damages Discourage Piracy**

Piracy is punished by actual or statutory damages. Actual damages are the same as under the Lanham Act as described above. Moreover, if the work is registered with the Copyright Office before the infringement occurred, hefty statutory damages are available. For each act of infringement of a work, a defendant may be charged with between \$750 and \$30,000 per act of infringement. Willful copyright infringement may be punished with \$150,000 per act.

**Merchant & Gould**  
An Intellectual Property Law Firm



The DMCA provides for actual damages and statutory damages up to \$2,500 for each act of circumvention. Before final judgment is entered, a copyright owner may elect to receive statutory damages. Statutory damages may range from \$200 to \$2,500 per act of circumvention and \$2,500 to \$25,000 per falsification or removal of copyright management information. Trebled damages are available if a violator is a repeat offender within 3 years after a judgment.

### **Civil Statutes are Expensive but Effective**

In order to rely on the federal statutes discussed, a federal lawsuit must be filed. Filing lawsuits can be expensive. The defendants in counterfeiting cases are often difficult to locate. In this author's experience, counterfeiters use a variety of names and move frequently. Service of the complaint is complicated and costly if the counterfeiter is abroad. Yet the civil statutes provide strict penalties, including heavy damages and seizure of goods. A few victories by an IP owner will likely deter would-be counterfeiters. If an IP owner is willing to invest in a civil litigation strategy, counterfeiters may decide those products are not worth the time and effort.

## **II. Federal Criminal Prosecution**

Title 18 of the United States code criminalizes trafficking in counterfeit labels, goods, or services. Several statutes criminalize counterfeiting, as follows.

**Merchant & Gould**  
An Intellectual Property Law Firm



### **Fines and Prison Sentences for Trademark Counterfeiting**

Section 2318 of Title 18 subjects counterfeiters that traffic in counterfeit labels to imprisonment of up to five (5) years and a fine. This includes providing illicit labels, such as licensing documents or genuine certificates. § 2318(b). These labels may be intended to be affixed to copyrighted work. § 2318(c).

Section 2320 of Title 18 provides criminal penalties for knowingly trafficking or attempting to traffic in goods or services using a counterfeit mark. Criminal prosecution requires proof that a suspect (1) intentionally (2) traffics or attempts to traffic in goods or services, and (3) knowingly (4) uses a counterfeit mark (5) on or in connection with such goods or services. This statute criminalizes the trafficking in counterfeit labels regardless of whether the counterfeit labels are attached to the counterfeit product. A first offense under § 2320 is punishable by a fine of not more than \$2,000,000 and/or ten (10) years of jail time, and a fine of \$5,000,000 and/or 20 years in prison for a repeat offender. The fines increase to \$5,000,000 and \$15,000,000, respectively, for a corporation. Goods and any property used to commit the counterfeiting may be seized.

### **Fines and Prison Times for Copyright Piracy**

Section 2319 of Title 18 codifies the corresponding criminal punishment for piracy. Section 2319 punishes these offenses with one (1) and ten (10) years in prison, depending on the retail value of the pirated goods and whether it is a subsequent offense. Specifically, a first offense is a fine of not more than \$500,000 or imprisonment for not more than five (5)

## **Merchant & Gould**

An Intellectual Property Law Firm



years, or a fine of not more than \$1 million and imprisonment for not more than ten (10) years, or both for repeated offenses. Moreover, use of a fraudulent copyright notice or removal of a copyright notice is a crime, punishable with a fine of up to \$2,500.

Sections 2319A-B criminalizes sound recording and motion picture piracy. Knowingly copying a sound recording or musical performance for commercial advantage or private gain is punished with five (5) years imprisonment for the first offense and ten (10) years for the second offense. Unauthorized recording of a motion picture for commercial advantage or private gain is punishable with three (3) years imprisonment for the first offense, and six (6) year prison terms for repeat offenders. Large fines are provided under both statutes. Seizure and destruction may be sought upon conviction. If copies of musical performances are fixed outside the U.S., such copies are subject to seizure upon importation.

### **Racketeer Influenced and Corrupt Organizations Act ("RICO")**

RICO criminalizes racketeering, including counterfeiting. Racketeering is defined in several ways, including committing any act indictable under 18 U.S.C. §§ 2318-2320, as discussed above. Under RICO, it is unlawful for a person to receive income from a pattern of racketeering activity. A violation of § 1962 carries a fine and/or imprisonment of up to twenty (20) years. RICO also permits law enforcement officials to seize not only the counterfeit goods, but also the real property, equipment and storage facilities associated with the criminal enterprise. Some racketeering activities can receive life imprisonment. Preliminary injunctions or temporary restraining orders may be granted to preserve evidence for forfeiture

## **Merchant & Gould**

An Intellectual Property Law Firm



if a satisfactory performance bond is posted.

**Criminal Prosecution is Inexpensive, Sometimes Inefficient, but Effective**

Criminal prosecution has two major benefits: serious penalties and cheaper than civil litigation. Yet many problems also exist. Relying on law enforcement officials can seriously delay the speed of action. Counterfeiting is often not a high priority for law enforcement, and getting counterfeiting moved to center stage is an uphill battle. Other problems include the defendant invoking the right to avoid self-incrimination (thereby interfering with civil discovery) and higher standards of proof. If criminal action is possible, extra care should be taken to preserve the chain of custody of materials seized. Furthermore, a plaintiff should remember that it is an ethical violation to use the threat of criminal prosecution as a settlement tool.

**III. Regulatory Agencies Including United States Customs and the International Trade Commission Offer Inexpensive Enforcement Measures**

**U.S. Customs**

As many counterfeit products are made overseas, U.S. points of entry are the main route into the U.S. The United States Customs Service ("Customs") not only investigates importation of counterfeits, but it can also prevent importation of counterfeit goods. To block importation, the trademark must be recorded by Customs. Recordation requires that the trademark be registered for the good being imported. This process is inexpensive and easy. With the proper application and \$190 filing fee, registration with the Intellectual Property

**Merchant & Gould**  
An Intellectual Property Law Firm



Rights Branch takes only three weeks. Registered IP is then placed on a list of trademarked goods and copyrights that is sent to over 20,000 customs agents at the 301 ports of entry for the U.S. Trademark owner must provide Customs with a way to identify counterfeit products.

Customs will seize the counterfeit goods bearing recorded trademarks. The counterfeiter may be enjoined or required to export or destroy the merchandise and is liable for damages and profits to the trademark owner. The counterfeiters and any person who aids and abets is subject to a civil fine issued by Customs. The fine for the first offense is not more than the value of merchandise, had it been genuine. For repeat offenses, the fine is doubled.

### **The ITC**

Sometimes Customs is unresponsive, or counterfeiters find a way to persuade Customs their goods are legitimate. The United States International Trade Commission ("ITC") can help an intellectual property owner obtain an exclusion order to direct Customs to stop infringing imports from entering the United States. Pursuant to 19 U.S.C. § 1337, the ITC investigates claims involving intellectual property rights, including allegations of patent, copyright, and trademark infringement by imported goods. The ITC can investigate infringements of both common law and registered trademarks. The ITC is authorized by 19 U.S.C. § 1337 of the Administrative Procedure Act, and its administrative law judges are authorized to conduct trial proceedings.

**Merchant & Gould**  
An Intellectual Property Law Firm



The primary remedy available in § 1337 is an exclusion order directing Customs to prohibit the importation of infringing goods. The Commission may also issue cease and desist orders against named importers and other persons engaged in acts that violate § 1337. Expedited relief in the form of temporary exclusion orders and temporary cease and desist orders are available in exceptional circumstances.

### **Regulatory Agencies are Inexpensive but Difficult to Manage**

Using U.S. Customs and the ITC as a tool against counterfeiting is inexpensive and is a readily available solution for IP owners. Registration is a necessary prerequisite. IP owners do not need to rely on law enforcement officials to initiate action. Instead, they can register their own copyrights and trademarks, conduct research and intelligence to determine when and where counterfeit goods are entering the U.S., and notify Customs to seize the goods. Reliance on these regulatory bodies only works well if the IP owner takes certain affirmative and necessary actions before involving the Customs department. The IP owner must be prepared to educate customs officials to recognize counterfeit goods and must work to determine where the counterfeiters are entering the U.S. When the proper leg work is done by the IP owner, regulatory agencies can be inexpensive and effective tools to fight counterfeiting.



## **Conclusion**

Counterfeiting may indeed affect any business that owns a successful product, but there are a variety of Federal tools available to assist that business in its effort to catch, prevent, and (if appropriate) punish those who counterfeit. Each tool has advantages and drawbacks, both in terms of cost and efficacy. An anti-counterfeiting strategy that most fits the goals of any business will involve weighing the facts and the potential remedy available against the likely cost involved. A carefully prepared, well planned, and affirmative strategy that utilizes the available tools is the best means to limit, as much as possible, the impact of counterfeiting on the bottom line.

*Authored by Heather J. Kliebenstein and Richard C. Siefert. For more information please call 612.332.5300.*