

**Exclusive for *World Trademark Review*
Submitted on Feb. 20, 2022**

Perimeter defence: regulatory tools to halt counterfeits at US borders

By Josh Hartman and Catherine (Kate) Mayer, Merchant & Gould

Precis

Providing an identification guide to help US Customs distinguish their goods from sophisticated counterfeits is a powerful option for rights holders to save time and resources, and to stop the flow of infringements more quickly

Bullets

- **Participating in US Customs' e-recordation system is a cost-effective way to stop counterfeits at borders - by providing border agents with identifying information, counterfeits can be more easily identified and seized**
- **Trademark owners can file complaints with the International Trade Commission to investigate unfair imports suspected of infringing registered and unregistered trademarks and trade dress**
- **A brand owner who has proven a violation of Section 337 and obtained remedial orders from the ITC can work with online marketplaces (including Amazon) to have counterfeits removed**

Global e-commerce was already on the rise and the pandemic has only accelerated this growth. Sellers are now able to access consumers anywhere at any time, while online marketplaces, such as Amazon and Alibaba, have flourished as avenues for cross-border trade. From 2019 to 2021, the percentage of Amazon sellers based in China rose from 28% to 63%, with 75% of new sellers in its top four core markets (the United States, the United Kingdom, Germany and Japan) based in China (see *Marketplace Pulse*, "[75% of New Sellers on Amazon Are From China](#)"). While the increase has yielded benefits such as greater choice and lower prices, it has also come with a cost: a wider customer base for infringers. As sales of counterfeits and knock-offs have moved from back alleys to living rooms at the expense of brand owners, rights holders and consumers.

Indeed, as global trade has slowed, the trade in counterfeits has soared. According to a joint study released in March 2019 by the Organisation for Economic Cooperation and Development and the EUIPO, the global trade in counterfeit and pirated goods reached \$509 billion in 2016, accounting for 3.3% of all trade in goods that year, up from 2.5% in 2013.

So how can legitimate vendors protect their brands from imported knock-offs and counterfeits flowing into their most important geographic markets? In the United States, brand owners have valuable regulatory solutions to the flow of infringing imports via two federal agencies – US Customs and Border Protection and the International Trade Commission (ITC). First, trademark owners registered with the US government can record their marks with Customs, which will enforce recorded marks at US ports of entry by inspecting, detaining and seizing infringing goods. Second, they can file complaints with the ITC to investigate ‘unfair imports’ suspected of infringing registered and unregistered trademarks and trade dresses. Through Section 337 investigations, the ITC can issue orders blocking infringing goods from entering the United States and prevent the marketing, sale and distribution of imported goods already in the country.

US Customs’ e-recording system

US Customs maintains a recording system for trademark owners registered with the government. Owners of federally registered marks can submit them to Customs using its e-Recording programme, which assists Customs personnel in their inspection of imported goods. Customs strongly encourages trademark owners to use the system and even has a policy against seizing goods with similar names that have not been registered.

Recordation equips border agents with information about products and marks, which is invaluable when they are attempting to distinguish between genuine goods and sophisticated imitations. Trademark owners can improve the efficacy of the system by providing product identification guides and offering training to personnel in the field, both in person and digitally. Owners can also report shipments of suspected counterfeits to Custom’s Centres of Excellence and Expertise – agency divisions responsible for specific sectors and classes of goods.

e-Recording does have limitations. US Customs’ infringement analysis is limited to a visual comparison between the recorded mark and suspect goods and does not include a likelihood of

confusion inquiry. Further, while Customs agents have wide discretion regarding infringement and seizure, they have little to guide their analysis. There is no opportunity for contextual evidence regarding, for example, the channels of trade in which the goods bearing the recorded and suspected marks are sold and the degree of care that consumers typically exercise. Thus, there may be fewer seizures of marked imports that differ visually from recorded marks and in context would confuse consumers. This leaves trademark owners at the mercy of border agents, who determine infringement on a case-by-case basis based on the goods in front of them, highlighting the importance of participation in the recordation programme.

Border agent decisions regarding infringement of recorded marks do not end the inquiry. Instead, Customs notifies importers of detentions and holds goods deemed counterfeit for 30 days following examination. An importer that receives a detention notice can establish that an exception applies to the goods at issue and then remove or destroy the objectionable mark (leaving unaddressed the importer's subsequent efforts to reapply the infringing mark after the goods enter the United States). Only after the 30-day detention does seizure and forfeiture occur.

The ITC's unfair imports investigations

The ITC conducts investigations into unfair imports into the United States under Section 337 of the Tariff Act of 1930. These investigations, which the ITC initiates based on complaints filed by rights holders, can address alleged trademark and trade dress infringement related to imported goods and can encompass both federal registrations and common law rights. If the commission concludes that Section 337 has been violated, it can issue exclusion orders that direct Customs to prevent infringing goods from entering the United States, as well as cease-and-desist orders that prevent respondents from carrying out activities related to infringing goods already in the country.

Section 337 investigations resemble private litigation. Complainants must prosecute their cases against the suspected infringers named as respondents and ultimately must prove their allegations through an evidentiary hearing or (less commonly) written summary determination motions. Section 337 investigations feature broad, American-style discovery, in which the ITC can require respondents to provide extensive documentation about their relevant activities. Further,

respondents can defend themselves by challenging the validity of the IP rights at issue. Private resolution is also possible, with the ITC typically honouring settlement agreements reached by the parties to the investigation.

There also are public dimensions to Section 337 investigations. Complainants must meet a domestic industry requirement by showing that they have made sufficient investments in the United States related to products protected by their asserted IP rights, or that relevant US business operations have been or likely will be injured by the alleged infringement. In addition to seeking remedies against the specific entities named as respondents in an investigation, complainants can seek broader relief against all infringing imports (irrespective of the source) by passing certain evidentiary thresholds. Before issuing any remedies for violations of Section 337, the ITC will assess whether these would harm the public interest. Further, in many investigations, the ITC's investigative attorneys appear as parties to represent the public interest in the outcome. Finally, compared with private litigation, Section 337 proceedings are relatively fast; by statute, they must be completed "at the earliest practicable time" after they begin.

Strategic advantages of the ITC for trademark owners

ITC unfair import investigations have many advantages for trademark owners as there is no prior registration or recordation requirement for Section 337 complaints. This makes it immediately available and provides a broad avenue for relief related to infringing imports, as rights holders can assert combinations of registered and common law rights in a single complaint. Further, ITC investigations are expansive; it is not unusual to see Section 337 complaints that name dozens of suspected infringers as respondents. If the trademark owner succeeds in proving a violation of Section 337 by a respondent based on one of its imported products, the commission will issue a remedy against all of that respondents' goods that infringe the asserted trademark – obviating the need for a product-by-product analysis. Further, trademark owners can obtain relief from the ITC against non-party infringers in the form of a general exclusion order (GEO). To do so, complainants must show that either a GEO is needed to prevent circumvention of an exclusion order directed specifically at the respondents named in the investigation; or that infringement of the asserted mark is widespread, and it is difficult to identify the source of infringing goods. Because GEOs are good against the world, they can be a powerful and efficient tool for brand

owners – they provide the broad remedy of preventing all infringing goods from entering the United States, regardless of the source, while also lowering brand owners’ enforcement costs.

In addition to remedies for the import of infringing products, the ITC also can issue orders against imported goods that have already entered the country. Its cease-and-desist orders prevent respondents that have violated Section 337 from conducting various domestic activities (eg, marketing, selling and distributing), related to imported infringing goods. These orders therefore provide a useful complement that is missing from the recordation process. As mentioned above, an importer whose goods have been detained by Customs for suspected infringement of a recorded mark can remove the offending labelling, gain entry for the goods into the United States and then reapply the infringing labels. By contrast, cease-and-desist orders restrict sales of infringing goods after import, even if the goods have been altered after entering the country.

Further, ITC investigations can provide an advantage to brand owners fighting counterfeiters at one of the root causes of the rise in global piracy: the online marketplace. Amazon in particular has been highly responsive to ITC exclusion orders. A brand owner that has proven a violation of Section 337 and obtained remedial orders from the ITC can work with the company to enforce those orders on its platform, with Amazon automatically taking down listings of products subject to the orders. Thus, ITC exclusion orders not only prevent infringing imports from entering the United States, but they can also erase such products from the marketplace.

Litigating the likelihood of confusion at the ITC

Another advantage of Section 337 investigations for rights holders is that they involve a thorough infringement analysis typical of private trademark and trade dress litigation. The ITC uses the same likelihood of confusion test to assess as US district courts. Although visual comparisons between the asserted and accused marks remain a focal point, contextual evidence also factors into the ITC’s infringement determinations. This includes:

- evidence of the relationship between the parties’ goods;
- the way the goods are marketed;
- the degree of care that purchasers likely exercise; and
- the respondents’ intent in adopting the mark.

Further, the ITC considers expert evidence, such as survey evidence, which trademark owners can submit to prove likelihood of confusion and, if needed, the mark's secondary meaning. Indeed, it is easier to introduce expert evidence in Section 337 proceedings than it is in private civil litigation. Administrative law judges preside over Section 337 proceedings and are responsible both for admitting and weighing the evidence. Because there is no need for these judges to serve as gatekeepers of evidence that could confuse the jury, the ITC generally accepts expert evidence as part of the factual record of an investigation over objections related to reliability or methodology.

The upshot of the ITC's infringement analysis is that the commission can and does find that accused products infringe asserted trademarks and dresses even if they differ visually. This allows brand owners to assert their marks against a wide range of goods in Section 337 investigations – not only against nearly identical counterfeits, but also knock-offs and other infringing goods that noticeably differ in appearance but that nevertheless are infringing when considered in context. This departs from recordation, which is better suited to addressing counterfeit goods due to the more limited nature of the infringement analysis performed by Customs personnel.

This difference can be illustrated by an infringement analysis by US Customs and the ITC with respect to Louis Vuitton's Toile Monogram marks. In 2003, Customs considered a ruling request from Los Angeles-based importer, Best Plan International Ltd, as to whether goods it contemplated importing would infringe the Louis Vuitton marks. The Best Plan goods featured overlapping initials, B and P, surrounded by flower and diamond-shaped designs. This resembled the concept behind the Louis Vuitton Toile Monogram, with its overlapping L and V surrounded by floral patterns.



Louis Vuitton Toile Monogram mark as used in commerce



Best Plan mark at issue

Customs concluded that the Best Plan and Louis Vuitton marks were not similar enough to confuse customers, based primarily on an element-by-element comparison of their visual differences, even though both marks were intended for use with the same class of goods, which included handbags. Several years later, in 2010, Louis Vuitton filed a Section 337 complaint with the ITC against imported goods that allegedly infringed the Toile Monogram trademarks, including the same registrations at issue in Best Plans' Customs ruling request. As with the Best Plan request, the goods at issue bore designs featuring combinations of initials and floral and diamond patterns.

This time, however, the ITC found that the accused products would likely confuse consumers based on the similarities between the marks, the strength of Louis Vuitton's registered marks, and the overall commercial impression made by the products. It ultimately issued a GEO against

imported goods that infringe the asserted Toile Monogram marks based on evidence of widespread infringement throughout the United States.

The commission thus recognised the uphill battle that brand owners such as Louis Vuitton face in enforcing their rights against a barrage of anonymous manufacturers and sellers, easily formed and dissolved to avoid liability, who can sell their infringing wares through traditional channels and over the internet.

A public-private enforcement strategy

So how should a mark owner employ these regulatory tools to enforce its rights? The best path is to use them in tandem and not focus on a single enforcement strategy. Each tool provides advantages under different circumstances. The basic measure that brand owners should take is to record their registered trademarks and trade dresses with Customs and to take advantage of the opportunities it offers to provide identification training to its personnel.

Recordation itself is quick and cheap, and putting in the extra time to train Customs personnel on how to discern your genuine goods from imitators can pay dividends in improved efficacy. Use of the recordation system will provide a baseline, cost-effective level of protection against imported counterfeits, with Customs taking care of the actual enforcement. Further, because Customs personnel render decisions on an import-by-import basis, with little review or oversight, there is minimal risk that a negative ruling in one case will lead to a domino effect for subsequent cases. For brand owners whose portfolios include unregistered marks or who face widespread infringement and have established US operations, the ITC's Section 337 investigations can provide significant return on investment in terms of enforcement.

In pursuing this route, brand owners should take advantage of the breadth of Section 337 investigations by:

- naming a large number of importers as respondents;
- asserting their marks against a combination of counterfeits and knock-offs, ranging from nearly identical to the asserted mark to visually different yet infringing; and
- seeking a GEO if the facts warrant one.

Further, in Section 337 investigations against smaller, foreign importers – often fly-by-night companies – many of the named respondents often fail to appear in the investigation to defend themselves, effectively conceding infringement and leading to findings of default against them. This scenario is particularly useful for trademark owners, as they can receive the benefit of strong ITC remedies without fully litigating their marks.

Finally, owners who succeed in obtaining ITC remedial orders should leverage them in the online marketplaces where sales of infringing goods persist. They can take advantage of Amazon's (and other online marketplaces) responsiveness to ITC orders and of the marketplaces' ability to automate removal of offending product listings. This can drastically lower monitoring and enforcement costs at one of the most significant vectors for global piracy, the online marketplace, enabling rights owners to better staunch the increasing flow of infringing US imports.

#

About the Authors:

Josh Hartman is a partner with Merchant & Gould's Washington, D.C. area office and the head of the national firm's ITC Section 337 Group. Josh navigates the substantive, procedural and strategic challenges that exist when litigating before the United States International Trade Commission. Catherine (Kate) S. Mayer is an associate attorney with Merchant & Gould's D.C. area office who also focuses her practice on Section 337 litigation. For additional information or questions regarding the article, Josh can be reached at jhartman@merchantgould.com or 703-518-4504; and Kate can be reached at kmayer@merchantgould.com or 703-518-4507; as well as through the firm's website at www.merchantgould.com.

Joshua A. Hartman <jhartman@merchantgould.com>;

Kate S. Mayer <kmayer@merchantgould.com>