



Anti-counterfeiting and Online Brand Enforcement: Global Guide

2024

**United States: How a multi-pronged
legislative approach is curbing the
online trade in fakes**

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Now in its 17th year, the Anti-counterfeiting and Online Brand Enforcement: Global Guide 2024 combines the latest strategic analysis with practical country-by-country exploration of the best protection around the world, enabling brand owners to stay one step ahead of counterfeiters and build effective programmes to keep the fakes at bay.

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United States: How a multi-pronged legislative approach is curbing the online trade in fakes

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PREVENTIVE MEASURES AND STRATEGIES

LEGAL FRAMEWORK

Anti-counterfeiting enforcement in the United States stems largely from two federal statutes: the Lanham Act (codified at 15 USC Section 1051) and the Trademark Counterfeiting Act 1984 (codified at 18 USC Section 2320). The Lanham Act provides civil remedies for trademark infringement and counterfeiting, while the Trademark Counterfeiting Act criminalises certain violations of the Lanham Act's anti-counterfeiting provisions, making these offences federal crimes. While there are additional state and federal laws that impose civil and criminal liability for counterfeiting, most anti-counterfeiting enforcement actions are derived from these two statutes.

The Lanham Act defines a counterfeit mark as 'a spurious mark which is identical to or substantially indistinguishable from a registered mark' (15 USC Section 1127). Ownership of a valid US trademark registration is therefore a prerequisite to a successful trademark counterfeiting claim under federal law. This definition also requires a higher degree of similarity between the marks than the 'likelihood of confusion' standard applied in a typical trademark infringement case. To qualify as 'counterfeit', the mark must be identical to or substantially indistinguishable from the registered mark. Under this more stringent standard, additional remedies are available for trademark counterfeiting beyond those available for trademark infringement.

Grey market goods do not qualify as counterfeit; therefore, distributors and sellers of grey market goods are not subject to criminal penalties. However, rights holders may have other claims against such distributors and sellers based on other intellectual property or contract laws.

BORDER MEASURES

US CUSTOMS AND BORDER PROTECTION

US Customs and Border Protection (CBP) is the primary federal agency responsible for addressing counterfeit goods at the United States border. All persons, baggage and merchandise entering the United States are subject to inspection by the CBP (19 CFR Section 162.6) and the CBP has authority to exclude, detain and seize counterfeit goods at any port of entry into the United States. Over the past several years, the CBP has reported significant increases in the number of seizures performed per year. In 2019 and 2020, it reported the first decreases in the number of seizures since 2014; however, the overall seizure numbers remain high, with 26,503 seizures representing a monetary value of over \$1.3 billion in 2020.

The CBP relies on information provided by trademark owners to identify counterfeit goods and it maintains its own searchable, online database of recorded IP rights for this purpose. Trademark owners may record their US trademark registrations with the CBP using the agency's Intellectual Property Rights e-Recordation system. The cost to record a trademark is \$190 per class of goods for the full term of the underlying registration. Beyond this recordation, trademark owners may also provide the CBP with additional information and materials to assist in identifying counterfeits. Rights holders frequently provide product identification guides (eg, listings such as hallmarks authenticating the product, common indicators of counterfeit products, authorised licensees and importers, known counterfeiters and contact information for the rights holder) and conduct in-person product trainings for

CBP personnel. Rights holders may also provide information about suspected infringers through the CBP's e-allegation tool.

On identifying suspected counterfeit goods at a US port of entry, the CBP may detain the goods and, at its discretion, provide certain limited information (including the import date, the port of entry, the country of origin, the description of the goods and their quantity as provided in entry documentation, and redacted images of the goods) to the trademark owner, to assist the CBP in its determination.

The CBP will inform the importer (and the trademark owner, if not already notified) of the detention within five business days, after which the importer has seven business days to provide proof that the goods are not counterfeit. If the importer does not respond or provides insufficient proof that the goods are not counterfeit, the CBP may release additional information, including unredacted images of the goods, to the trademark owner (19 CFR Section 133.21). Because it can be very difficult for the trademark owner to determine the authenticity of the goods from limited information and redacted images (which conceal identifying information such as universal product codes, serial numbers and names and addresses of the manufacturer, importer and exporter), the CBP's ability to release unredacted images to the trademark owner before expiry of the seven-day waiting period is a hotly contested issue. Because agency guidance on this issue is in a state of flux, trademark owners have reported widely disparate experiences with CBP officers' willingness to disclose information and the timing of such disclosures.

If the CBP determines that the detained goods are counterfeit, the goods will then be seized and forfeited. The CBP may also impose a civil monetary penalty against the importer.

INTERNATIONAL TRADE COMMISSION

The CBP also enforces exclusion orders issued by the US International Trade Commission (ITC), a quasi-judicial federal agency staffed by administrative law judges. A US trademark owner may seek an exclusion order from the ITC under Section 337 of the Tariff Act 1930 (19 USC Section 1337) and the ITC will conduct a '337 investigation' into the trademark owner's allegations of illegal import of counterfeit goods into the United States.

With a few key differences, 337 investigations function very similarly to federal court proceedings. Although an ITC complaint can be based on both registered and unregistered (common law) trademark rights, only a company with sufficient domestic industry activity may avail itself of the protections of the ITC. Further, unlike federal court proceedings, the ITC's jurisdiction is not personal to the accused infringer, so the resulting exclusion order may apply to all infringing imports entering the United States, regardless of the importer's identity. Both the trademark owner and the accused infringer participate in the proceedings as they would in federal litigation, and the ITC also appoints an investigating attorney to represent the public interest. If the ITC finds a violation of Section 337, it may issue prospective injunctive relief in the form of an exclusion order barring further importation of infringing goods, and/or a cease and desist order against respondents with commercially significant US operations or infringing inventory inside the United States. The ITC lacks authority to award monetary damages; however, it may impose fines of a minimum of \$100,000 per day for each day that an entity violates an ITC cease and desist order.

ITC exclusion orders are enforced by the CBP and may be applied to infringing imports of specific respondents (limited exclusion orders) or to all infringing imports regardless of

source (general exclusion orders). Cease and desist orders are enforced by the ITC and, if necessary, through federal litigation initiated by the ITC.

CRIMINAL PROSECUTION

Counterfeiters may be subject to criminal prosecution by state or federal law enforcement agencies (18 USC Section 2320), which provide various criminal penalties for the intentional trafficking of counterfeit goods. For an individual, the standard penalties include up to 10 years imprisonment and a fine of up to \$2 million for a first-time offender and up to 20 years imprisonment and a fine of up to \$5 million for a repeat offender. Corporations and other entities may be fined up to \$5 million (for first-time offences) or \$15 million (for repeat offences). The prosecution may seek enhanced penalties, including the possibility of life imprisonment, where a defendant recklessly or knowingly causes or attempts to cause serious bodily harm or death in connection with the act of counterfeiting or in cases involving counterfeit military goods or services or counterfeit drugs.

In addition to these penalties, convicted counterfeiters are also ordered to pay restitution to their victims, including the trademark owners (however, the restitution amount is often less than a trademark owner would receive in a civil action against the counterfeiter). Further, the counterfeit goods at issue, along with any equipment, storage facilities, vehicles or other property used in the commission of the crime, and any proceeds derived from the crime, will be subject to forfeiture to the government and possible destruction on a successful conviction.

Law enforcement authorities rely on reports and other cooperation from trademark owners in their investigations and prosecutions of counterfeiters. A successful criminal prosecution typically requires evidence and testimony from the trademark owner, to prove the validity of the trademark rights at issue and the lack of authorisation for the defendant's use of those trademarks.

CIVIL ENFORCEMENT

Because trademark owners have little control over the timing and other aspects of criminal anti-counterfeiting enforcement, many trademark owners prefer to seek relief through civil litigation in addition, or as an alternative, to criminal prosecution. In a civil case for damages, the trademark owner elects either a jury trial or a bench (non-jury) trial. Juries typically award higher damages, but a trademark owner may prefer bench trials in cases with complex issues or facts.

PRIVATE INVESTIGATIONS

The first step in a civil case is typically a private investigation initiated by the trademark owner. This often involves arranging investigative purchases of the suspected counterfeit goods, collecting product samples and other evidence, confirming that the goods are in fact counterfeit, and identifying potential defendants. The trademark owner may use evidence gathered during this investigation to support a request for certain types of emergency relief, including a temporary restraining order, an asset freeze or a preliminary injunction.

CIVIL SEIZURES

In civil counterfeiting cases, a trademark owner may seek an ex parte seizure order. The trademark owner requests an ex parte seizure order on commencement of the suit, to prevent the defendants from concealing, destroying or otherwise disposing of the counterfeit

goods, the instrumentalities used to make them, and records of the counterfeiting activities (15 USC Section 1116(d)). Civil seizure is a highly sought-after remedy in counterfeiting cases because, if granted, it immediately removes the counterfeit goods from the market, preserves the evidence of counterfeiting, and can allow for a more accurate determination of damages. Because ex parte seizure orders are granted without prior notice to the defendant, the trademark owner must first provide adequate security to the court in the event of a wrongful seizure and prove that:

- an ex parte seizure order is the only adequate remedy;
- the trademark owner has not publicised the seizure;
- the trademark owner is likely to succeed on the merits of its counterfeiting claim;
- the trademark owner will suffer immediate and irreparable injury if seizure is not ordered;
- the harm to the trademark owner outweighs any legitimate interests to the defendant whose goods will be seized;
- the goods to be seized are located at the identified location; and
- the defendant would destroy, move or hide the goods if given advance notice of the seizure.

A trademark owner's civil seizure request should be supported by affidavits with facts from the investigation. While seizure orders are relatively common throughout the United States, some district courts are more receptive to granting such requests than others.

MONETARY RELIEF

Under federal law, a trademark owner may seek actual damages or an accounting of the defendant's profits, as well as attorneys' fees. For intentional acts of counterfeiting, the court will – absent extenuating circumstances – award treble damages (three times the award of base profits or damages, whichever is greater), along with reasonable attorneys' fees.

Because evidence of actual sales or profits is often difficult, if not impossible, to obtain in counterfeiting cases, federal law permits trademark owners to elect statutory damages in lieu of actual damages. These statutory damages range from \$1,000 to \$200,000 per type of good on which each counterfeit mark is used, or up to \$2 million per type of good for wilful counterfeiting.

ANTI-COUNTERFEITING ONLINE

The increasing availability of counterfeit goods online presents a complex environment for enforcement, requiring a flexible, multi-dimensional approach. Because counterfeiters are typically located outside the United States and hide their true identities to consumers online, no US legal strategy is by itself sufficient to address their activity. Trademark owners must employ a variety of tools to effectively combat counterfeiters online.

US LITIGATION TOOLS

Even where a counterfeiter is located outside the United States, certain US litigation tools may be available to address US-based aspects of the case. For example, if the counterfeiter is using a US-based intermediary (eg, a payment processor, financial institution, internet service

provider (ISP), e-commerce site or domain registrar), a US court may exercise jurisdiction over these activities (including by freezing any US-based accounts).

US civil procedure also permits trademark owners to pursue legal action against counterfeiters whose identities are unknown, naming these entities 'John Doe' defendants in a suit. This allows the trademark owner to conduct discovery to uncover the counterfeiter's identity. This discovery can include third-party intermediaries with whom the counterfeiter has engaged (eg, ISPs, domain registrars and shipping companies). Further, a trademark owner may prove a counterfeiter's identity, and/or connect a counterfeiter's activities across multiple platforms, using circumstantial evidence (eg, the use of one username on various e-commerce sites and other counterfeit sales patterns).

Third parties who knowingly facilitate the sale of counterfeit goods (or are wilfully blind to such activities) may be subject to contributory liability under US law. This threat of contributory liability, in combination with the safe harbours described below, provides a strong incentive for online intermediaries to take appropriate action in response to rights holders' reports of counterfeit activity in a timely fashion and before a lawsuit is filed.

SAFE HARBOURS FOR ONLINE INTERMEDIARIES

US trademark case law and the Digital Millennium Copyright Act (DMCA) each provide a safe harbour shielding certain online intermediaries whose facilities are used by infringers from contributory liability, where those intermediaries follow a notice-and-takedown procedure for addressing rights holders' infringement reports. ISPs and e-commerce sites with significant US contacts will usually remove infringing content on receipt of a rights holder's infringement report in order to benefit from these safe harbours. The safe harbours do not apply where the intermediary participates directly in the counterfeiting activity or is aware of the activity but chooses to ignore it.

The intermediary's notice-and-takedown mechanisms may provide only temporary relief – if an accused infringer chooses to submit a counter-notification objecting to the intermediary's removal of the infringing materials, the intermediary may reinstate the removed materials unless a lawsuit is filed. Also, a successful takedown will result in removal of the infringing content from a website, but the infringer can easily switch to a new ISP or create a new website.

The DMCA also provides a special type of subpoena that can help rights holders learn the identities of counterfeiters operating online. Specifically, the DMCA allows a copyright owner to serve a subpoena on an ISP for 'information sufficient to identify the alleged infringer' from the ISP's business records (17 USC Section 512(h)). The subpoena may be served on the ISP at the same time as the takedown notice. The copyright owner must submit a request to the court that contains:

- a copy of the DMCA notice;
- a proposed subpoena; and
- a sworn declaration that the purpose of the subpoena is to uncover the counterfeiter's identity and will be used only to that end.

Provided the request meets the DMCA's requirements, a court will issue the subpoena without requiring that the copyright owner file an actual complaint. The subpoena must be

processed by the clerk of court in the district court where the ISP is located. It is available only in counterfeit cases involving infringement of the trademark owner's copyrighted materials.

DOMAIN NAME REMEDIES

Where a counterfeiter is selling counterfeit goods on a rogue website with an infringing domain name, the trademark owner may seek transfer or cancellation of the domain name through litigation (relying on US law) or arbitration proceedings (relying on the UDRP or similar mechanisms). Domain names may also be seized by US law enforcement in criminal enforcement initiatives such as the National Intellectual Property Rights Coordination Centre's Operation in Our Sites.

INTERMEDIARY TERMS OF SERVICE

Trademark owners may seek voluntary cooperation from online intermediaries without resorting to litigation. After receiving a trademark owner's report of counterfeit activity, some intermediaries will voluntarily terminate services to the counterfeiter based on violations of their terms of service agreements (which typically prohibit the use of intermediary services for illegal activities). For example, a trademark owner may report a counterfeiter to the credit card companies and payment processors advertised on the counterfeiter's website, and those intermediaries may elect to terminate the counterfeiter's merchant accounts, so that the counterfeiter can no longer process payments for its sales. These payment intermediaries may also assess heavy fines for the counterfeiter's violations of the terms of service. This enforcement method is particularly effective, for example, where the counterfeiter operates a large network of rogue websites, but processes payment through only a few merchant accounts, as merchant accounts tend to be much more valuable to a counterfeiter than its individual websites and domain names.

IMPACT OF INFORM CUSTOMERS ACT OF 2023 ON DISCLOSURE OF COUNTERFEIT SELLER INFORMATION

The Integrity, Notification and Fairness in Online Retail Marketplaces for Consumers Act (INFORM Consumers Act), signed into law as part of the Consolidated Appropriations Act of 2023, requires online marketplaces to collect, verify and disclose certain identifying information from high-volume third-party sellers (sellers with more than 200 transactions and \$5,000 in revenues in a 12-month period) to consumers. This information includes seller name, bank account number, tax identification number, working email address and phone number, and government-issued ID for the seller's representative (individual sellers) or government-issued record or tax document including the entity name/physical address (entity sellers). The INFORM Consumers Act does not provide rights holders with any enforcement tools for requiring disclosure or rights of action to sue online marketplaces or high-volume sellers for non-compliance. Nevertheless, seller information will likely be more readily available and reliable following its implementation.

PREVENTIVE MEASURES AND STRATEGIES

An effective, multi-dimensional approach to anti-counterfeiting includes certain preventive measures. First, the trademark owner should register key trademarks and copyrights (eg, for product packaging) with the USPTO and the US Copyright Office, respectively. These trademarks and copyrights should also be recorded with the CBP.

Trademark owners should also:

- monitor (or employ a vendor to monitor) key online marketplaces and platforms, as well as at-risk bricks-and-mortar locations, for suspected counterfeit products;
- establish and maintain contacts with key law enforcement offices and personnel (eg, the relevant CBP Centre of Excellence for the trademark owner's industry, the National IPR Centre and the White House Intellectual Property Enforcement Coordinator);
- provide product identification guides to the CBP and regularly update these materials;
- offer in-person training and other support to the CBP and other key law enforcement agencies;
- connect with other rights holders and rights holders' organisations to collaborate in law enforcement trainings and criminal raids;
- implement appropriate packaging and product features to assist in product authentication, and consider employing track-and-trace technology to monitor the legitimate supply chain; and
- foster relationships with legitimate suppliers, distributors and consumers to support anti-counterfeiting objectives.

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