

Although Currently Weak, Penalties Exist For U.S. Distributors Who Knowingly Sell Counterfeit Products

By Neal Zipser
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Although virtually all member companies of MEMA's Automotive Aftermarket Suppliers Association claim that many of their customers knowingly have counterfeit automotive parts on their shelves, there really isn't much they can do about it. Simply put, they fear potential retaliation by their customers if they broach the subject.

But perhaps more important, weak criminal and civil penalties give suppliers little impetus to even think about challenging their customers to get rid of their potentially unsafe fake products.

"You have to be kidding to think that any of the major retailers would listen to you if you asked them to remove the products," one supplier executive told FOCUS. "And besides, they know that the current penalties are weak and hard to enforce."

Strengthening the criminal and civil penalties is one of the priorities of MEMA's Brand Protection Council, which now includes nearly 50 member companies and a representative from the U.S. Customs Department.

MEMA worked with Rep. Joe Knollenberg (R-Mich.) to introduce a bill that would strengthen the federal criminal law against trafficking in counterfeit goods. The "Stop Counterfeiting in Manufactured Goods Act" (H.R. 4358) closes a serious loophole in the current law by making the destruction of equipment used to manufacture and package counterfeit goods mandatory, thereby fully shutting down counterfeiters' ability to produce and market fake goods. The current law makes it possible for criminals to keep all the equipment necessary to produce and market counterfeit goods. The bill has the effect of bringing the standards of legal protection for patent and trademark holders, which includes thousands of U.S. manufacturers, up to the levels now afforded only to copyright owners.

Knollenberg's legislation will also make it a crime to produce and traffic in labels or emblems that are later affixed to counterfeit goods, and it will tighten the law and close loopholes on the unauthorized use of "famous marks."

Due to being introduced late in the legislative session, the bill will have to be reintroduced when Congress reconvenes in 2005. The non-partisan bill should garner heavy support on Capitol Hill.

Is There Liability?

According to Arent Fox's Anthony Lupo, any purchaser may be held liable for selling counterfeit products if he knew or had reason to know that the products were counterfeit. Lupo defines a "purchaser" as a distributor, retailer, wholesaler or installer.

"Resellers may be held liable for counterfeiting if they had knowledge or had reason to know that the products were counterfeit," Lupo said. "Knowledge can be demonstrated by several factors, including but not limited to, the quality, price and manner of distribution of the products and notification in the form of a cease and desist letter."

Lupo added the knowledge may be established through "willful blindness" where the reseller fails to inquire about the authenticity of the products for fear of what such inquiry may yield. For example, in *Louis Vuitton S.A. vs. Lee*, the resellers of counterfeit Louis Vuitton and Gucci leather goods clearly knew or should have known that the goods were counterfeit. The goods at issue were purchased by the resellers from "itinerant peddlers at bargain-basement prices." Furthermore, the goods demonstrated poor quality workmanship unlikely to be associated with high end Louis Vuitton and Gucci goods.

The resellers' experience in the retail handbag and luggage business as well as the well-known association of the Louis Vuitton and Gucci brands with high-end goods should have alerted and, in fact, "obligated" the resellers to question the legitimacy of these goods, according to Lupo. The court concluded that such willful blindness was sufficient to establish knowledge and liability.

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In another case, *Gucci America Inc. vs. Duty Free Apparel Ltd.*, the court concluded that the reseller knowingly sold counterfeit goods. The court found that the unusual channels of distribution (through an unauthorized dealer) as well as the lack of authenticating documentation were sufficient to impute knowledge to the reseller. Furthermore, the court found that the reseller should have known to inquire about the authenticity of the goods after receiving the plaintiff's cease and desist letters.

The cease and desist letters sent by the plaintiff in *Sebastian International Inc. vs. Russolillo* were also deemed sufficient to impart knowledge to the resellers. The plaintiff's cease and desist letters detailed the counterfeit nature of the products at issue, thereby putting the resellers on notice. However, the defendants continued to distribute and sell the plaintiff's products after receiving the letters. The court, therefore, concluded that the defendants knowingly and intentionally took part in counterfeiting.

What Are the Damages?

Once knowledge has been established, a reseller may be held civilly and criminally liable for counterfeiting. Civil damages may include special monetary damages, statutory monetary damages and non-monetary relief.

Special monetary damages are calculated by trebling the profits or damages and may include reasonable attorney fees. Such damages may also include the prejudgment interest on the amount of damages awarded, according to Lupo. For example, in a case brought by the Ford Motor Co. against Kuan Tong Industrial Co., the court awarded Ford treble damages, including a monetary award of more than \$2.5 million, prejudgment interest in the amount of nearly \$271,000, costs in the amount of just under \$19,000, and attorney fees in the amount of more than \$153,000.

"In this instance, Ford alleged that the defendant used simulated and counterfeit Ford trademarks in importing, packaging, marketing, advertising, selling or distributing merchandise," Lupo said. "The court rejected the defendant's alleged ignorance of U.S. laws and held in favor of Ford."

Lupo noted that a plaintiff may also seek statutory damages where there is insufficient information or evidence to establish actual damages. A plaintiff may be awarded statutory damages in the range of \$500 to \$100,000 per counterfeit mark per type of good or service, and up to \$1 million if the violation is willful. If a court finds that the use of the counterfeit mark was willful or intentional, then it may award statutory damages up to \$1 million per counterfeit mark per type of goods or services sold or offered for sale. In addition, it is within a court's discretion to award attorney fees. In determining whether attorney fees should be included, a court may consider whether the statutory damage adequately compensates the plaintiff while advancing the goal of deterrence.

"A party involved with the importation of counterfeit goods in any manner may also be fined an amount equal to the market value of the genuine merchandise for first offenses," Lupo added. "Repeat offenders may be fined the double of this amount."

In addition to monetary damages, courts may issue preliminary injunctions, permanent injunctions, temporary


restraining orders and seizure orders, and may order the freezing of assets, the attachment of property and the destruction of counterfeited goods.

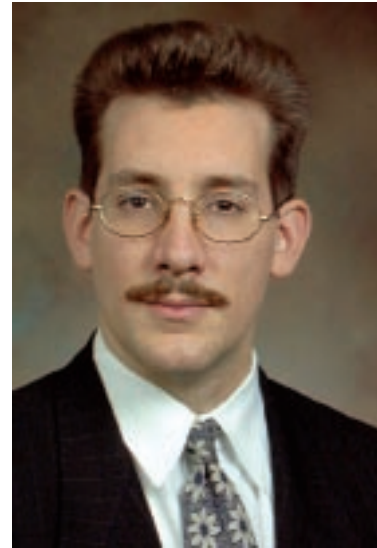
Current Criminal Penalties

A reseller may also be held criminally liable. The range of criminal penalties that may be imposed depends on whether the accused is an individual or a corporation and whether it is a first or subsequent offense, according to Lupo. For example, individuals who knowingly use a counterfeit mark on or in connection with goods or services may be fined up to \$2 million and/or imprisoned for up to 10 years for a first offense and fined up to \$5 million and/or imprisoned for up to 20 years for a subsequent offense. By comparison, corporations may be fined up to \$5 million for a first offense and up to \$15 million for a subsequent offense.

Lupo noted that sentencing guidelines allow for harsher sentences where the retail value of the counterfeit item exceeds \$2,000. Furthermore, if a court determines that the articles at issue bear counterfeit marks, U.S. Customs may obtain an order for the destruction of the articles. For example, in *U.S. vs. Koehler*, the court affirmed the defendant's conviction for "knowingly using a counterfeit mark in intentionally trafficking in automobile parts, labels and containers" and enhanced the defendant's sentencing after finding that the defendant was "in the business" of dealing in stolen goods. The enhanced sentence included a longer prison term and a special assessment fee. At trial, the defendant had been found guilty of selling an undercover FBI agent 89 counterfeit air conditioner compressors, 107 counterfeit automobile part labels and 100 counterfeit automobile part containers.

Lupo added that the Racketeer Influenced and Corrupt Organizations Act (RICO) provides additional penalties for parties guilty of transferring or transporting counterfeit goods for value. Under RICO, law enforcement officials may seize counterfeit goods and non-monetary assets associated with the criminal counterfeiting enterprise, such as property, equipment and storage facilities.

"In summary, a reseller may be found liable if he knew or had reason to know that the products were counterfeit," Lupo said. "Whether sufficient knowledge exists to establish liability must be considered on a case by case basis. However, courts have considered cease and desist letters, the distribution channels, quality and prices for certain products sufficient to establish knowledge." 



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