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Legal Update

The Anticounterfeiting Consumer Protection Act of 1995[†]

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1. Consumers frequently associate counterfeit merchandise with the harmless street corner amusements of fake designer sunglasses and watches. Yet the innocuous trinket sales belie a multi-billion dollar crime, one that has proliferated with the help of weak trademark and copyright counterfeiting laws. As a result, the Anticounterfeiting Consumer Protection Act of 1995 ("The Anticounterfeiting Act"),¹ signed into law on July 3, 1996 addresses the deficiencies by combining significant criminal penalties, enhanced civil remedies, and improvements in interdiction.

2. The United States Trade Commission revealed that counterfeits cost the American economy \$5.5 billion in 1982.² In 1995, the International Anti-Counterfeiting Coalition estimated such costs at \$200 billion a year, an increase of more than 3,000%.³ Sales of counterfeited merchandise result in revenue reductions for legitimate businesses,⁴ as well as corresponding losses

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¹ Anticounterfeiting Consumer Protection Act of 1995, Pub. L. No. 104-153, 110 Stat. 1386 (codified as amended in scattered sections of U.S.C.).

² *Cracking Down on Trademark Counterfeiting: Testimony Before the Senate Committee on the Judiciary*, 104th Cong. (1995) (testimony of John S. Bliss, President, International Anti-Counterfeiting Coalition), available in 1995 WL 594255 [hereinafter *Bliss Testimony*].

³ See *id.*

⁴ See *Cracking Down on Trademark Counterfeiting: Testimony Before the Senate Committee on the Judiciary*, 104th Cong. (1995) (testimony of Thomas McGann, Senior Vice

in tax revenues. According to the President of the International Anti-Counterfeiting Coalition, “U.S. automobile manufacturers and suppliers los[e] \$12 billion in revenue worldwide because of the sale of fake parts. The industry claims it could hire an additional 200,000 workers if the sale of counterfeit auto parts were eliminated.”⁵

3. Pirated merchandise often poses significant health and safety risks to consumers. Counterfeit spare parts for automobiles, helicopters, and airplanes have been associated with numerous accidents, sometimes with fatal results.⁶ Counterfeit-labeled foods also put the public at major risk.⁷ Because consumers cannot be sure of a product’s contents, they cannot depend on the manner of food preparation nor on the product’s expiration date.⁸ This results in food product counterfeits often containing unacceptable levels of mold, bacteria, and insect parts.⁹ Additionally, harmful pirated products may, through association, cause a decrease in consumer goodwill toward legitimate manufacturers.

4. Aside from consumer protection arguments, the major impetus in the passage of the new law is the recently unmasked relationship between counterfeiting and organized crime.¹⁰ In some instances, counterfeit merchandise itself has been used to abet more traditional crimes, exemplified by the New Jersey state police’s recent find of heroin residue hidden inside the

President, Burton Snowboards), *available in* 1995 WL 594270. [hereinafter *McGann Testimony*].

⁵ *Bliss Testimony, supra* note 2.

⁶ *See id.* (“A General Motors investigation of an auto accident revealed that a counterfeit brake lining made of wood chips was responsible for the death of a mother and her child. Other investigations have turned up brake linings made of compressed cardboard that had an estimated lifespan of 200 miles.”); *Protecting Consumers from Counterfeiting: Testimony Before the House of Representatives Committee on the Judiciary*, 104th Cong. (1995) (testimony of John S. Bliss, President, International Anti-Counterfeiting Coalition), *available in* 1995 WL 722473 (“[A] helicopter crash killed a traffic reporter during a live broadcast in 1987. Federal investigators later discovered, after a series of similar accidents, that more than 600 helicopters sold to both NATO and private entities contained counterfeit parts The Department of Transportation has reported numerous cases across the country where individuals and companies have been charged with the manufacture and sale of mislabeled and counterfeit airplane parts.”).

⁷ *See Bliss Testimony, supra* note 2.

⁸ *See id.*

⁹ *See id.*

¹⁰ *See Moneyline: Cracking Down on Counterfeit Products, Part 1* (CNN television broadcast, May 9, 1996).

lining of 100 fake designer handbags.¹¹

5. Of greater concern, however, is that the proceeds from sales of pirated goods may be used to fund other illegal activities. The President of Harper Associates, Inc. testified in congressional hearings that “[p]roduct counterfeiting is -- by definition -- a highly organized criminal activity, requiring a network of manufacturers, distributors and -- often -- financial backers (otherwise known as money launderers) to function.”¹² Throughout these hearings, citations to the widely publicized arrest and conviction of gang leader David Thai abounded.¹³ Thai reportedly financed his gang, along with its extortion and armed robbery activity, with money he made from counterfeit watch production.¹⁴ According to congressional testimony, “David . . . stated that in his best year he sold more than \$13 million in counterfeit watches.”¹⁵ Counterfeiting’s high profit, low risk of detection and prosecution, and weak penalties all contribute to its attractiveness to organized crime syndicates. Moreover, copyright infringement and counterfeiting are less likely to be prosecuted than mail or wire fraud, interstate transportation of stolen property, RICO, and customs violations.¹⁶

6. Prior to the Anticounterfeiting Act, trademark counterfeiting was addressed exclusively under the Lanham Act.¹⁷ Under section 34(d) of the Lanham Act, a trademark owner may bring a civil suit in order to obtain an ex parte seizure--a court order to seize counterfeit goods and related business records without notice to the defendant.¹⁸ The Lanham Act also provided for trebled damages, court costs, and attorneys’ fees upon findings of willful

¹¹ See *Cracking Down on Trademark Counterfeiting: Testimony Before the Senate Committee on the Judiciary*, 104th Cong. (1995) (testimony of Dempster Leech, President, Harper Associates, Inc.), available in 1995 WL 594257 [hereinafter *Leech Testimony*].

¹² *Id.*

¹³ *United States v. Thai*, 29 F.3d 785 (2d Cir. 1994).

¹⁴ See *Leech Testimony*, *supra* note 11.

¹⁵ *Id.*

¹⁶ See Mary Jane Saunders, *Criminal Copyright Infringement and the Copyright Felony Act*, 71 DENV. U. L. REV. 671, 675-76 (1994).

¹⁷ 15 U.S.C. § 1051 (1994).

¹⁸ See § 1116(d).

counterfeiting.¹⁹ Copyright counterfeiting was predominantly addressed by the Copyright Felony Act,²⁰ under which infringement is punishable by fines and imprisonment.²¹ Counterfeiting, however, is not a heavily prosecuted crime. The Justice Department prefers to spend its limited resources on other, more serious, crimes.²²

7. Perhaps the most important aspect of the new law is that it makes trademark and copyright counterfeiting a “predicate act” under the Racketeer Influenced and Corrupt Organizations Act (“RICO”).²³ If the defendant has committed one or more of the enumerated RICO predicate acts,²⁴ RICO further criminalizes the “laundering” of racketeering profits²⁵ and participation in an enterprise associated with a pattern of racketeering activity.²⁶

8. Section 3 of the Anticounterfeiting Act amends RICO to now include criminal copyright infringement, trafficking in goods or services bearing counterfeit marks, and trafficking in counterfeit products, including phonorecords, computer programs, and video products as predicate acts.²⁷ The added statutory basis for prosecution of counterfeiting subjects an entire illegal enterprise to prosecution, including those persons involved with the financing, distribution, and sale of pirated merchandise.²⁸ Additionally, under RICO, law enforcement officials may seize not only counterfeit goods, but also the property, equipment, and storage facilities associated with a

¹⁹ See § 1117.

²⁰ Copyright Felony Act of 1992, Pub. L. No. 102-561, 106 Stat. 4233 (codified as amended at 18 U.S.C. § 2319).

²¹ See 18 U.S.C. § 2319 (1994).

²² See David Stipp, *Farewell, My Logo: A Detective Story*, FORTUNE, May 13, 1996, at 128; Thomas J. Maier, *Knockoffs: A License to Steal*, NEWSDAY, Sept. 12, 1988, at 8.

²³ 18 U.S.C. § 1961 (1994).

²⁴ § 1961(1).

²⁵ § 1962(a) - (b).

²⁶ § 1962(c).

²⁷ 18 U.S.C.A. § 1961(1)(B) (West Supp. I 1996).

²⁸ See § 1962(a).

criminal counterfeiting enterprise.²⁹ RICO's tougher penalties may help serve as a deterrent against counterfeiting activity.

9. Section 4 of the Anticounterfeiting Act amends the criminal provisions relating to record piracy and copyright infringement to criminalize trafficking in computer software.³⁰ The amendment expands protection from record and video labels to computer software programs, labels, and packaging.³¹

10. Section 5 requires the U.S. Attorney General, in his or her annual report to Congress,³² to provide statistics relating to all criminal counterfeiting actions.³³ Such statistics will include for all actions involving counterfeiting, the number of open investigations and "the number and outcome including settlements, sentences, recoveries, and penalties, of all prosecutions brought under sections 2318, 2319, and 2320 of title 18."³⁴ The reporting of such information may facilitate counterfeiting investigations and thereby aid in the prosecution of these offenses.

11. Sections 6 and 7 of the Anticounterfeiting Act amend the Lanham Act. First, language was added to section 34(d)(9) of the Lanham Act, allowing any federal or state law enforcement official to execute a seizure order in a civil counterfeiting action.³⁵ Allowing local law enforcement officials to carry out federal court orders should decrease delay in, and increase the number of, actual seizures of counterfeit goods. Second, section 35 of the Lanham Act now affords civil litigants the opportunity to obtain discretionary, judicially imposed damages in trademark counterfeiting cases, rather than actual damages.³⁶ The damages range from \$500 to \$100,000 per counterfeit mark and up to \$1 million if the violation is willful.³⁷ This should

²⁹ § 1962(c).

³⁰ *See* § 2318.

³¹ *See id.*

³² *See* 28 U.S.C. § 522 (1994) (outlining the Attorney General's duty to report certain business and statistics to Congress for the preceding fiscal year).

³³ *See* 18 U.S.C.A. § 2320 (West Supp. I 1996).

³⁴ *Id.*

³⁵ 15 U.S.C.A. § 1116(d)(9) (West Supp. I 1996).

³⁶ § 1117(a).

³⁷ *See* § 1117(b).

alleviate inequity in cases where the actual damages are difficult to prove, such as when counterfeit goods have been hidden or destroyed, or when records of counterfeit sales do not exist or are deceptively kept.

12. Sections 8 and 9 deal with the destruction of counterfeit articles. Section 8 amends 17 U.S.C. § 603(c), which had allowed the Customs Service to return seized counterfeit products to their importer. Alternatively, customs officials may destroy counterfeited goods once they are seized.³⁸ This permanently removes forged articles from the stream of commerce, thus preventing an importer from attempting to bring the same pirated products back into the United States at a different customs location. Section 9 amends the Tariff Act of 1930, now requiring the Customs Service to destroy routinely all counterfeits of American products unless the trademark owner agrees to an alternate disposition of the merchandise and the products pose no public safety risk.³⁹ Both amendments work to prevent counterfeit importers from simply redistributing counterfeit goods.

13. Sections 10, 11 and 12 further amend the Tariff Act of 1930 to prevent importation of counterfeit articles. Section 10 grants discretion to the Customs Service to impose a civil fine on persons involved in the importation of pirated goods.⁴⁰ For a first offense, the fine may equal up to the value of the merchandise if it were genuine; for a second or subsequent offense, the fine may equal double the value of the merchandise.⁴¹ The fines serve as a deterrent to importing where criminal charges are not pressed against an importer. Section 11 allows public disclosure of aircraft manifests under the same terms currently allowed for sea shipments.⁴² This eliminates an unwarranted distinction related to information about shipping by sea and by air. Finally, section 12 requires that the Customs Service promulgate regulations requiring importers to file information regarding the trademarks on imported merchandise.⁴³ Thus, Customs officials may be able to determine whether shipments are counterfeit based upon whether goods bearing a particular mark may be legitimately manufactured and shipped from certain countries. Additionally, these filings are to be made public. This

³⁸ See 17 U.S.C.A. § 603(c) (West Supp. I 1996).

³⁹ 19 U.S.C.A. § 1526(e) (West Supp. I 1996).

⁴⁰ See § 1526(f).

⁴¹ See *id.*

⁴² See § 1431(c)(1).

⁴³ See § 1484(d)(2).

will enable trademark owners to determine if shipments which purport to carry their products are legitimate.

14. Finally, section 13 defines counterfeit goods as “contraband” items under 49 U.S.C. § 8032(a).⁴⁴ This enables law enforcement officials to seize the vehicles and aircraft used in counterfeiting activity, as is the case now with respect to counterfeit currency and securities.

⁴⁴ See 49 U.S.C.A. § 8032(a)(6) (West Supp. I 1996).