

STOP! FAKES! Preventing Cross Border Transportation of Fake Luxury Goods

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I. Introduction

“Counterfeiting” is the unauthorized reproduction of goods protected by intellectual property rights. This can involve the imitation of a trademark, label, or other key characteristic associated with a product. Counterfeit goods are often created at low cost, do not comply with standards or regulations, and are then sold at a significantly higher value to make a profit.

The importation of counterfeit goods into Canada and the U.S. has in the past been largely seen as a “frivolous” crime; one that did target the fashion industry but did not concern society at large. However, it has now been accepted that current trends in counterfeiting can pose health and safety concerns to consumers, and cause significant economic harm. In recent years especially, the rise of online shopping for apparel, accessories, and luxury goods has allowed counterfeiters to more easily trick consumers.

In particular, trade in counterfeit clothing, footwear, accessories, handbags, luggage, jewellery, and watches has resulted in direct lost sales of over 500 billion dollars worldwide annually since at least 2016. Shoddy workmanship for counterfeit goods can damage a brand’s carefully built goodwill and reputation. Items such as counterfeit luxury cosmetics can also pose a health risk, as they are frequently found to contain levels of heavy metals such as lead or mercury that far exceed allowable limits, or they may be contaminated with bacteria or undeclared allergens.

To better combat counterfeits, Intellectual Property and Transportation lawyers can team up together to stop these products at the border. Lawyers who work in e-commerce, manufacturing, retail and transportation and warehousing can cooperate to report suspected IPR violations, fraud or illegal activity, protecting a client's brand and value, and how to avoid or limit the expense of making a successful report, and dealing with the subsequent repercussions.

This presentation will provide practical advice on how to team up with customs and borders agencies in the United States, Canada, and China, to detect and stop counterfeits at the border, warehousing options, and how to take action to prevent or reduce marketplace entry of the counterfeit goods.

II. Your Products are being Counterfeited. Now what?

As luxury brand owners know, there is a huge market in counterfeiting products bearing their prestigious brand names. The top 10 most counterfeited brands are: Gucci, Chanel, Louis Vuitton, Ray-Ban, Apple (especially the airpods), Burberry, Rolex, Cartier, Hermes, and Tiffany. Of all the seizures in the US of counterfeit goods in recent years, approximately 18% has been clothing, 14% shoes, and 13% watches and jewellery.

In addition, many smaller and newer brands are also encountering counterfeited versions of their products.

A brand holder who owns a registered US or Canadian trademark which is being applied to counterfeit wares has a number of legal options to consider. Upon discovering counterfeits, the rights holder's first step should be to find out all they can about who is making the counterfeit wares and how those products can be distinguished from legitimate wares.

Often, the first time a brand owner hears of counterfeit versions of its products is from customer complaints. Counterfeit versions are usually lower quality than the legitimate brand name versions. As a result, customers who unknowingly purchased counterfeit products may complain to the brand owner about products fading or wearing much sooner than expected. It is important in such cases to get a sample of the counterfeit product and any information the customer can provide about where and who it was purchased from, and any invoices or other documentation provided with the product. Such investigation may reveal the manufacturer and the country from which the product originated. The brand owner can also start compiling a list of features and red flags associated with the counterfeit product, such as rock bottom pricing or poor quality packaging or stitching. These features can later help customs agents to look out for further counterfeit products upon inspecting shipments at the border.

In addition to getting relevant information and samples from customers, brands should also implement monitoring software and AI solutions, which can help detect counterfeit versions of the products. For instance, AI-powered price comparison tools are very helpful to detect products that are too cheap to be legitimate.

III. Enlisting the Assistance of Border Officials

Next, the rights holder should contact the relevant customs officials to register their trademarks with their offices, and to request assistance in identifying and detaining suspect counterfeit goods. The most common source of counterfeit goods is China. It is useful to enlist the help of Chinese Customs Officials to prevent goods from leaving Chinese borders. For the United States and Canadian markets, it is also important to enlist the help of their respective border agencies to prevent entry of the counterfeits into our markets.

In recent years, counterfeit products have been increasingly arriving at our borders by ship. In fact, over fifty percent of counterfeit goods are shipped by container ship. The increasing prevalence of containers as a method of international shipping has boosted efficiency for international trade, but this trend has also made it much easier for traffickers of counterfeit products to operate. Less than 2% of containers are inspected,

resulting in increased likelihood that counterfeit products will get through. Therefore, the more information that the rights holder can provide to the border agencies, the better.

a. The United States

In the United States, Customs and Border Protection (CBP), a branch of the Department of Homeland Security, is responsible for detecting and preventing entry of counterfeit products at the border, particularly at ports of entry. To engage their assistance, a holder of a registered US trademark may file documentation called a Customs Trademark Recordation on the CBP's website. Once recorded, it will last for one year and can be renewed through the same portal.

To educate the CBP about a brand and associated products, a recommended way to do so is to prepare a product guide, which is a handbook full of relevant details and image examples, which can be referred to when suspected counterfeits are encountered by agents. Live training events such as webinars or in-person seminars may also be conducted. Relevant details to provide for education purposes include details about authorized manufacturers and sellers, geographic origins of the products, key identifying aspects of the authentic products and their packaging, details about previous infringers, and any known current distributors of illegitimate goods.

Once the CBP is engaged, they have wide powers. They may search any vehicles and their cargo attempting to cross the US border. If suspected counterfeits are found, they have authority to detain and seize the offending products. Once seized, the CBP will give the importer 5 days to respond to the seizure, and may also contact the rights holder for assistance in examining the suspected products. The rights holder may have the goods destroyed, or commence legal action against infringers.

b. Canada

In Canada, an IP owner concerned about counterfeits can work in a similar way with the Canadian Border Services Agency (CBSA) to stem the flow of counterfeits into the country. A holder of a registered Canadian trademark can engage CBSA. The first step is to file a Request for Assistance with the CBSA. The RFA identifies the registered trademark to be identified, and there is opportunity to provide further detail including approved suppliers and manufacturers, and examples of authentic goods versus counterfeit ones. RFAs remain valid for two years, and may be renewed.

Once the RFA is on file, the CBSA will watch for suspected counterfeit goods being imported. The rights holder can take legal action to stop the counterfeit and the intercepted shipments may be destroyed by the CBSA. If the rights holder does not object, then the goods will be released.

CBSA has authority to detain goods destined for Canada as well as goods in transit through Canada.

c. China

Similarly to Canada and the United States, rights holders can register their trademarks with the Chinese Customs authorities so that goods may be intercepted before they cross the Chinese border bound for North America.

For collaborating with Chinese Customs authorities, brands should share details of their IP including descriptions of products and packaging, photos, samples, and training guides. A list of any authorized brand representatives in China should be provided, as customs official may consult with them in case of suspected infringement passing through customs. China's customs officials are authorized to seize and destroy infringing products.

When dealing with counterfeits originating in China, further information which is particularly useful is the identity of the shipper, and if possible to obtain, details of the cargo and container numbers through which the goods will be sent. This information can sometimes be obtained by hiring a private investigator in China to monitor the factories and warehouses suspected of producing infringing goods. Because such a small percentage of containers are inspected by chance (around 2%), having such additional details will materially increase the odds of successful discovery of the counterfeit goods.

IV. Next Steps and Warehousing

If customs officials have detained suspected counterfeit goods, they will be moved to a licensed warehouse facility pending customs release. This means that the goods are moved beyond the border or the airport without having cleared customs, and remain under customs control.

In Canada, goods can be detained by up to 10 days, and the rights holder can also request that they be detained for a further 10 days. In order to detain them for longer, the rights holder must initiate court proceedings and provide CBSA with notice. If proceedings are commenced, the goods will remain in detention until the proceedings are concluded, the Court orders release of the goods, or the rights holder consents to their release. While in detention, the rights holder is responsible for the costs associated with storage, handling, and destruction.

Suspected counterfeit goods are typically held in "sufferance warehouses", which are privately owned, and licensed by entities like the CBSA for short term storage and examination of imported goods pending release from customs. The goods may stay for up to 40 days. If the goods are not claimed within that time, they are transferred at the rights holder's expense to a place for safekeeping for a further period of 30 days, after which they forfeit to the federal government to dispose of. The rights holder would be responsible for all expenses incurred by CBSA in doing so, as well as any costs related to further handling or destruction of detained goods after receiving notice of detention.

In general, due to the high costs associated with warehousing, it is recommended to negotiate with the importer promptly in order to resolve the issues. Many importers will abandon the cargo at which point the rights holder can request destruction. Frequently, if a negotiated resolution is possible, rights holders will negotiate that the importer of the counterfeits is responsible for paying warehouse fees as a condition of settlement. Similarly, if an enforcement action is commenced with the Court, the rights holder can request reimbursement of its warehousing costs if successful in the litigation.

Transportation lawyers will often be involved in negotiating with or on behalf of rights holders to determine the fate of cargo held at the border. Such legal representatives can cooperate to promptly resolve such disputes, as the warehousing costs of delay can easily end up in the thousands of dollars.

V. Conclusion

Intellectual property and transportation lawyers have key roles to play in cracking down on the trade in counterfeit goods. The problem of counterfeits has increased proportionally to the increase in online shopping. In particular, the growth in the use of containerized ocean freight shipping, and customer fulfillment warehouses in North America, these practices have also facilitated large scale importation of counterfeits with decreased chances of detection. By working with the relevant customs authorities, IP and transportation lawyers can help stem the tide of counterfeits.