



# Knock It Off!

Protecting Your Brand  
From Trademark  
Counterfeiting

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# 1. What is trademark counterfeiting?

Commonly called “knock-offs,” “fakes,” or even “replicas,” counterfeits are unauthorized copies of a genuine product’s design, packaging, and brand name. Until fairly recently, trademark counterfeiting plagued mainly the owners of famous luxury brands, like Gucci®, Louis Vuitton®, and Rolex®. However, counterfeiting now affects brand owners in virtually every product category, and no producer of consumer goods is immune.

No one really knows the true extent of the problem, but the World Customs Organization estimates that counterfeit goods may account for as much as seven percent of all world trade, representing almost \$600 billion annually.<sup>[1]</sup> Evidence suggests that the dollar volume of counterfeit products sold throughout the world has nearly doubled in the last five years.<sup>[2]</sup> The most frequently counterfeited products include footwear, apparel, bags, consumer electronics, sunglasses, and headwear.<sup>[3]</sup> Although products in these categories are among the most likely to be knocked off, every company that makes consumer products is a potential target for counterfeiters. In addition, every company that sources components from a third-party supplier runs the risk that counterfeits of these components will end up in their otherwise genuine products.

Counterfeiting can decrease your company’s profits and the profits of your distributors and retailers, and it can seriously undermine your brand image. Fortunately, there are several tools available to protect your company’s brands and bottom line from the damage that counterfeiting can cause. The purpose of this booklet is to highlight some of those tools.\*

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\* Because every brand’s particular situation differs, there can be no “one-size-fits-all” approach to counterfeiting prevention. Consequently, this booklet should not be interpreted as legal advice tailored to your specific situation.

## **2. Register your core brands in the U.S. and abroad.**

Perhaps the most important step you can take to protect your company from trademark counterfeiting is to register your core brands and significant secondary brands with the U.S. Patent and Trademark Office and also with the trademark authorities of other countries. Federal registration of trademarks in the United States provides several benefits, including the establishment of nationwide priority of rights, as well as the benefit of placing competitors on notice of your rights.

If you have already registered your important trademarks with the U.S. Patent and Trademark Office, the next step is to register your trademarks in foreign countries. Unlike the United States, most countries do not recognize common law trademark rights that flow from a brand owner's use of its trademark. Therefore, in most countries, registration is essential to protect your mark from piracy and counterfeiting. And because trademark rights in most countries are based on a "first to file" system, it is important to file foreign trademark applications as soon after you have adopted your trademark as possible. Many companies are surprised to learn that they are unable to register their marks or even sell their products in a foreign country because a trademark "pirate" has already registered "their" trademark in that country. Often, time-consuming negotiations and costly ransom payments, or even slower and more costly court battles, are necessary before the U.S. business can establish its trademark rights in that country.

Fortunately, proper planning can significantly decrease the risk of losing trademark rights. Now, broad foreign registration strategies have become significantly more affordable due to the new availability of an "International Registration" system that allows for registration in more

than 80 countries through the filing of a single trademark application. In addition, the expansion of the European Union trademark registration system allows a brand owner to obtain trademark protection in all 27 EU member states by filing a single application.

You should consider registering your core brands in the following types of countries:

- countries where you currently distribute or plan to distribute;
- countries where you manufacture;
- countries where your vendors or suppliers are located;
- countries that are known manufacturing centers for counterfeits in your product category; and
- countries that are major trans-shipment points for authentic and counterfeit goods in your product category.

As your business expands, you should periodically assess your company's trademark portfolio to ensure that you own trademark applications and registrations in all of these relevant countries. Holland & Hart trademark attorneys can help you devise a cost-effective foreign trademark filing strategy that maximizes your trademark protection and minimizes your exposure to counterfeiting, given the needs of your business and your current financial resources.

### **3. Enlist the help of national customs authorities.**

In most countries, customs agents regularly inspect shipments of incoming goods and detain suspicious shipments. If the seized merchandise is indeed counterfeit, customs officials may also have the authority to destroy it without further proceedings. The beauty of this enforcement

system is that it keeps counterfeit merchandise off the market altogether. The system is not perfect, however, because customs agents inspect only a fraction of the shipments arriving at any given port.

To take advantage of this system in a certain country, you must first register your trademark in that country. Then, once your mark is registered, you must “record” your trademark registration with the country’s customs authority. As a general rule, customs agents will not seize shipments of counterfeits unless the brand owner has officially recorded its trademark registration with the customs agency.

U.S. Trademark Registrations may be recorded electronically with U.S. Customs and Border Patrol at

**<https://apps.cbp.gov/e-recordations/>**

As for recording your foreign trademark registrations, under a new EU regulation, a brand owner can record European Union trademark registrations with all 27 countries’ national customs authorities by filing only one application. This central filing system has significantly reduced the cost of recording trademark registrations throughout the European Union. Outside the European Union, trademark registrations must still be recorded on a country by country basis.

Companies that have already experienced counterfeiting problems may also want to conduct face-to-face meetings with customs officials in relevant countries. During these meetings, company representatives can educate customs agents about the company’s counterfeiting problem and provide these agents with information that will help them detect shipments of counterfeits. Customs officials in most countries appreciate these overtures and welcome the chance to partner with brand owners in the fight against counterfeiting.

If customs authorities seize shipments of counterfeits, documentation accompanying the shipment may provide information regarding the distributor or even the manufacturer of the counterfeits. Once the distributor or manufacturer is located, brand owners can work with local authorities to conduct raids on manufacturing facilities and warehouses and seize the counterfeiter's inventory, as well as any patterns, molds, and dies used in producing the counterfeits.

## **4. Watch your own factories.**

A company's own manufacturers can pose the greatest counterfeiting threat, by running a "third shift" of unauthorized overruns, by selling patterns, dies, and molds out the back door, or by incorporating cheaper counterfeit components into genuine products. In order to minimize the chances of becoming the victim of your own factory, you should require all manufacturers to enter into written, enforceable, manufacturing agreements.

Those agreements should incorporate several provisions to safeguard your trademarks and your other intellectual property, including patents, trade secrets, and other proprietary technology and manufacturing methods. For example, an agreement could include terms specifying that:

- You retain all ownership of your trademarks and other intellectual property.
- The manufacturer's right to use your intellectual property is limited to the production of products authorized by you.
- The manufacturer cannot use your trademarks or proprietary technology in the course of manufacturing products for other companies or on its own behalf.
- The manufacturer cannot sell or disclose to third parties any aspects of your proprietary technology, including patterns, dies, and molds.

- The manufacturer must source components from original manufacturers or company-authorized suppliers.
- The manufacturer must use secure methods to dispose of production waste, damaged products, and “seconds.”
- The manufacturer must follow company-authorized guidelines to ensure the physical security of the factory.

To ensure that a manufacturing agreement is enforceable both at home and abroad, it should be reviewed by your U.S. counsel as well as by an attorney in the country where your manufacturer and its factories are located. Holland & Hart has significant experience in drafting manufacturing agreements and it has developed an extensive network of “hand picked” law firms throughout the world with whom it can consult to maximize your protection under local laws.

Even after you have finalized a written agreement with your factory, you should regularly audit its compliance.

## **5. Secure your distribution chain.**

Even more distressing than finding counterfeits of your product sold on the street is finding them sold through your own distribution chain. Unfortunately, counterfeit products are seeping into legitimate distribution channels throughout the world with increasing frequency.

Counterfeiters prey on weaknesses in the supply chain. Often they pose as legitimate distributors and buy products in bulk, only to blend fake products into lots of legitimate goods. They may also intercept early shipments of goods, particularly samples headed for sales representatives or distributors. By reverse engineering these product samples, counterfeiters can keep their designs current with or even ahead of the brand owner’s.

Maintaining a secure distribution chain can help guard against these hazards. Therefore, you should consider taking the following security measures:

- Train your sales force to assess the legitimacy of customers. (They should be suspicious of new “dealers” offering to pay in cash. They should also be suspicious of dealers or distributors who place unusually large orders.)
- Centralize your distribution as much as possible. (The fewer the shipping and transshipment points the better.)
- Use seals on containers and note seal numbers on shipping manifests to prevent containers from being opened and resealed.
- Train retailers to inspect and verify authenticity of packaging, case markings, or pallet configurations.
- Ship products (including samples) in unmarked containers.

## **6. Monitor the Internet.**

The Internet has revolutionized the global counterfeiting industry. Today, numerous “business to business” or “international trade” sites facilitate the world-wide distribution of counterfeits directly from manufacturers in Asia. On the retail side, consumers can purchase counterfeits through numerous Internet “auction” sites, such as eBay or ioffer. As a result, one of the first places a counterfeiting problem may become evident is on the Internet. Therefore, even companies with no counterfeiting problems should occasionally monitor the Internet for evidence of counterfeits.

Although Internet auction and trade sites do not screen product offerings to ensure that they are genuine, most will remove listings of counterfeits once they receive a notice from a brand owner. For example,

eBay offers an efficient mechanism for reporting counterfeits called the VeRO (Verified Rights Owners) program.

**(<http://pages.ebay.com/help/tp/vero-rights-owner.html>)**

Under this program, eBay will usually remove reported listings of counterfeits from its site within 24 hours.

Although shutting down Internet auctions merely treats the symptoms of counterfeiting and not its cause, it nevertheless removes a significant sales venue for counterfeits, which in turn, raises the counterfeiter's cost of doing business in your brand. Faced with the increased hassle of knocking off your brand, a counterfeiter may decide to move on to an easier target.

### **Sites worth monitoring:**

#### **International Trade Sites**

www.ecplaza.net  
www.tradekey.com  
www.alibaba.com  
www.tradezone.com  
www.worldbid.com

#### **Retail Sites**

www.ebay.com  
www.prostores.com  
www.ioffer.com  
www.taobao.com (Chinese auction site)

## 7. Consider investing in anti-counterfeiting technologies.

Many companies now incorporate devices into their products to help customs officials, distributors, retailers, and even consumers verify the authenticity of their goods. These devices range from the extremely simple—like intentional product and packaging flaws to the very complex—like micro-particle taggants and embedded fibers. Obviously, the more complex or advanced the technology, the more expensive it is to deploy.

Factors guiding the selection of the appropriate anti-counterfeiting technology will be unique to every company and product and will depend on the potential and existing threat posed by counterfeiting to a particular product category and brand.

## 8. What if I discover a counterfeiting problem?

Despite your best efforts, you may discover that you have become a victim of counterfeiters.

The appropriate response to this discovery will depend upon several factors, such as whether you have trademark rights in the country where the counterfeiter is located, whether civil or criminal remedies are available in the country, and whether the counterfeiter is selling products through a bricks and mortar location or through the Internet.

In most countries, both civil and criminal remedies are available against counterfeiters. For example, on the civil side in the U.S., brand owners can obtain immediate federal court seizure orders for a counterfeiter's inventory and production tools in addition to documents, files,

and computer records related to the sale of the counterfeits. U.S. courts can also award monetary damages of up to \$1 million per counterfeit trademark. On behalf of our clients, Holland & Hart attorneys have successfully obtained numerous federal court seizure orders and judgments against counterfeiters.

On the criminal side, brand owners may enlist the assistance of local and national law enforcement agencies to seize counterfeit products and prosecute counterfeiters. However, in many instances, law enforcement officers are unfamiliar with trademark counterfeiting and may not even realize that it is a crime or that they have authority to seize counterfeit products. Therefore, it occasionally falls to brand owners to educate local law enforcement officers about the criminal nature of counterfeiting and their authority to pursue counterfeiters. With several former federal and state prosecuting attorneys among our ranks, Holland & Hart knows how to assemble the compelling evidence that can convince law enforcement to institute criminal investigations and pursue convictions of counterfeiters.

## **Conclusion**

All of the measures outlined in this booklet are important tools for brand owners in the fight against counterfeiting. Even if your company is not experiencing a counterfeiting problem now, taking the measures discussed here will increase the strength and value of your brand and can significantly decrease the chances that your company will experience serious counterfeiting problems in the future. The key to success, however, is taking these measures early in the life of your brand, or at least before a counterfeiting problem becomes overwhelming.

For more information about the Intellectual Property group at Holland & Hart, please visit [www.iph2.com](http://www.iph2.com) or [www.hollandhart.com](http://www.hollandhart.com).

## Notes

[1] Source: Joint Press Release of World Customs Organization and Interpol, May 26, 2004. Available at <http://www.ccapcongress.net>.

[2] Source: "Seizure Statistics for Intellectual Property Rights," U.S. Customs & Border Patrol. Available at <http://www.cbp.gov>.

[3] Source: "Seizure Statistics for Intellectual Property Rights," U.S. Customs & Border Patrol. Available at <http://www.cbp.gov>.



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