

## **New Legislation Would Empower U.S. Customs to Seize Products Infringing Design Patents at the U.S. Border**

**by Elizabeth D. Ferrill and Eric Liu**

On December 5, 2019, the Counterfeit Goods Seizure Act of 2019 (CGSA) was introduced to the U.S. Senate, proposing to amend 19 U.S.C. § 1595(a)(c)(2)(C). If enacted into law, the CGSA would give U.S. Customs and Border Protection (CBP) the discretionary power to enforce recorded U.S. design patents at the U.S. border similar to its current discretionary power to enforce registered trademarks and copyrights.<sup>1</sup> Counterfeiters and trademark infringers have become more sophisticated in bypassing CBP with new counterfeiting techniques, which underscores CBP's need for additional discretion over design patent enforcement.

According to a White House report, counterfeiters now often cover or obscure infringing trademarks, removing the cover after the counterfeit goods clear with CBP.<sup>2</sup>

Counterfeiters also avoid detection by CBP through shipping infringing marks separately from the goods, relying on in-country assembly and distribution after the separate components have entered the U.S. border.<sup>3</sup> In 2018, five individuals were arrested in connection with importing more than \$70 million in counterfeit Nike Air Jordans from China through New Jersey.<sup>4</sup> The counterfeit shoes resembled the Nike Air Jordans but were manufactured without any identifying marks that could be flagged by CBP.<sup>5</sup> The fake logos were added to the shoes after they came through the port and were sold to people throughout the United States.<sup>6</sup>

In a separate case involving boots, counterfeiters had glued a shoe insert over a fake Timberland logo on the bottom of the boots.<sup>7</sup> Counterfeiters also have tried to minimize

detection by CBP by intentionally mislabeling shipping containers. In Los Angeles and in Long Beach, CBP seized fake Nike shoes that were incorrectly labeled as napkins on the shipping containers in an attempt to disguise the counterfeit goods.<sup>8</sup>

CBP inspectors frequently encounter counterfeit goods that are left in a generic form that cannot be seized, unless there is an exclusion order from the U.S. International Trade Commission (ITC). To enforce their rights, design patent holders currently must file a complaint and go to trial at the ITC for an exclusion order relating to specific patents. If the ITC issues an exclusion order on the importation of infringing products, CBP is responsible for enforcing the exclusion order. However, the ITC process may still be too complicated, expensive, and time consuming (between fifteen to eighteen months)—particularly for smaller companies or those involved in a fast-changing industry.<sup>9</sup> This can cost patent holders millions of dollars in litigation costs and lost profits while unauthorized importers continue to bring infringing products across the U.S. border.<sup>10</sup> If CBP had the discretion to enforce design patents, it could immediately seize infringing goods that use the previously mentioned techniques, rather than allow counterfeiters to continue to import and sell the infringing goods while the patent owners spend time and money obtaining an exclusion order.

The counterfeit market has a significant impact on the U.S. and global economies and impacts on consumer safety. The total estimated value in counterfeit and pirated goods was more than \$1 trillion in 2013 and is estimated to reach \$2 trillion by 2022, according to the February 2017 Frontier Economics report.<sup>11</sup> The market in fake goods is estimated to be 3.3% of all global commerce.<sup>12</sup> According to a report from the Organisation for Economic Co-operation and Development (OECD), footwear and

clothing are the top trades in counterfeit goods.<sup>13</sup> Other commonly traded counterfeit goods, such as healthcare products, consumer electronics, automotive parts, and other products that could be ineffective or harmful to consumers, pose significant risks to consumer safety.<sup>14</sup>

The burden of the proposed amendment of the CGSA is minimal, as CBP officials already train to enforce design patent exclusion orders from the ITC and have already demonstrated the ability to determine design patent infringement. Given the nature of the design patent infringement test, enforcing design patents is well within the capabilities of CBP officials. Where infringement determinations are more difficult, CBP would have the discretion to not seize potentially infringing goods and leave design patent holders with the usual course of relief through the ITC. This framework would be consistent with CBP's current enforcement of recorded trademarks and copyrights.<sup>15</sup>

The CGSA is bipartisan legislation that is publicly supported by the industry and associations including IPO.<sup>16</sup> If the CGSA is enacted into law, the U.S. would be joining other countries and governmental entities that already enforce design rights at their borders, such as the European Union, Japan, South Korea, China, India, Mexico, Turkey, Argentina, South Africa, Switzerland, and Panama. At a time when counterfeiters are becoming more sophisticated in bypassing CBP, the CGSA proposes an important amendment that gives CBP a necessary tool to protect American individuals and businesses.

<sup>1</sup> S. 2987, 116th Cong. (2019).

<sup>2</sup> *Supporting Innovation, Creativity & Enterprise, Charting a Path Ahead*, U.S. JOINT STRATEGIC PLAN ON INTELLECTUAL PROPERTY ENFORCEMENT, FY 2017-2019, at 26.

<sup>3</sup> *Id.* at 24-25.

<sup>4</sup> Ted Sherman, *They Allegedly Imported \$70M of Fake Nike Air Jordans. Then the Feds Dunked on Them.*, NJ.com (Aug. 6, 2018), [https://www.nj.com/crime/2018/08/they\\_allegedly\\_imported\\_70m\\_of\\_fake\\_nike\\_air\\_jordans\\_then\\_the\\_feds\\_dunked\\_on\\_them.html](https://www.nj.com/crime/2018/08/they_allegedly_imported_70m_of_fake_nike_air_jordans_then_the_feds_dunked_on_them.html).

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> Ella Chochrek, *Nike Throws Support Behind Legislation to Curtail Counterfeits*, Footwear News (Dec. 5, 2019, 2:28PM), <https://footwearnews.com/2019/business/legal-news/nike-design-patent-legislation-counterfeits-1202884177/>.

<sup>9</sup> *Nike Seeks New Weapon in Battle Against Counterfeit Goods*, BUS. OF FASHION (Dec. 4, 2019 8:28 PM), <https://www.businessoffashion.com/articles/news-analysis/nike-3m-seek-new-weapon-in-battle-against-counterfeit-goods>.

<sup>10</sup> *Section 337 Statistics; Average Length of Investigations*, U.S. INT'L TRADE COMM'N (Jan. 21, 2020), [https://www.usitc.gov/intellectual\\_property/337\\_statistics\\_average\\_length\\_investigations.htm](https://www.usitc.gov/intellectual_property/337_statistics_average_length_investigations.htm).

<sup>11</sup> *The Economic Impacts of Counterfeiting and Piracy*, FRONTIER ECONOMICS (Feb. 2017).

<sup>12</sup> *Trends in Trade in Counterfeit and Pirated Goods*, OECD (Mar. 18, 2019), <https://www.oecd.org/newsroom/trade-in-fake-goods-is-now-33-of-world-trade-and-rising.htm>.

<sup>13</sup> *Id.*

<sup>14</sup> *Supporting Innovation, Creativity & Enterprise, Charting a Path Ahead*, U.S. JOINT STRATEGIC PLAN ON INTELLECTUAL PROPERTY ENFORCEMENT, FY 2017-2019, at 26.

<sup>15</sup> 19 U.S.C. § 1959a(c)(2).

<sup>16</sup> The CGSA is co-sponsored by Senators Thom Tillis (R-NC), Chris Coons (D-DE), Bill Cassidy (R-LA), and Mazie Hirono (D-HI). Companies such as Nike Inc., 3M Company, Wolverine Worldwide, Columbia Sportswear, Deckers Brands, and professional associations, including the Footwear Distributors & Retailers of America, the Intellectual Property Owners Association, the International Trademark Association, and the American Intellectual Property Law Association, support the CGSA. Press Release, Office of Bill Cassidy, Cassidy, Tillis, Coons, Hirono Introduce Bipartisan Legislation to Seize Counterfeit Products and Protect American Consumers and Businesses, (Dec. 5, 2019); Letter from Etienne Sanz de Acedo, Chief Exec. Officer, Int'l Trademark Ass'n, to Thom Tillis and Chris Coons (Nov. 20, 2019); Letter from Henry Hadad, President, Intellectual Prop. Owner's Ass'n, and Barbara A. Fiacco, President, AIPLA, to Thom Tillis and Chris Coons (Dec. 5, 2019); Andy Polk, *Footwear Industry Applauds New Legislation Aimed at Curbing the Surge in Counterfeit Footwear Harming American Show Consumers and Companies*, FDRA (Dec. 5, 2019, 2:37 PM)

<https://fdra.org/latest-news/footwear-industry-applauds-new-legislation-aimed-at-curbing-the-surge-in-counterfeit-footwear-harming-american-shoe-consumers-and-companies>.