

**Customs & International Trade Practice
Intellectual Property Practice**

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Customs' Role in the Enforcement of Intellectual Property Rights

U.S. Customs and Border Protection ("Customs") has developed a new intellectual property rights ("IPR") audit program that focuses on companies Customs believes are at "high risk" for importing counterfeit and infringing merchandise.

The development of the new audit program highlights the importance of conducting a review of your company's imports and suppliers to ensure compliance with the customs laws in this area and avoid penalties for importing counterfeit or infringing merchandise. In addition, it is important to review your own intellectual property and investigate any instances where your company may become a victim of such violations.

I. Customs' New IPR Audit Program

Customs plans to issue technical guidelines regarding IPR audits this fall, but has stated that the IPR audit program risk model reviews importer history, shipper history, country of export and commodity type in order to determine the companies that are at "high risk" for importing counterfeit or infringing merchandise. In addition, companies with previous IPR violations could be selected for such audits.

Customs' fiscal year 2004 statistics for seizures of goods infringing and counterfeit goods illustrates that the following goods have been particularly problematic: wearing apparel; cigarettes; handbags, wallets, backpacks; consumer electronics; media; toys and electronic games; watches and their parts; batteries; footwear; and computers and their hardware.

Further, Customs has identified that goods imported from China accounted for 63% of the total domestic value of IPR seizures in fiscal year 2004. Other source countries where IPR seizures were prevalent

included Russia, Hong Kong, South Africa, Vietnam Korea and the Philippines.

Because Customs is not only focusing on brand name and high-end merchandise, the scope of importers at risk for importing counterfeit merchandise has increased. Customs claims to be expending considerable resources to eliminate trade in counterfeit goods.

In conjunction with anticipated IPR audits, Customs may make unannounced visits to companies and ask company officials for access to internal records, inventory and personnel in order to search for possible violations. Customs auditors are particularly interested in reviewing an importer's business records, authorization letters, and other internal controls concerning its use of intellectual property to determine whether weaknesses exist that create a greater likelihood of IPR violations. The business records that help Customs identify IPR violations are purchase contracts, license agreements and payments.

If Customs does visit your company to conduct an IPR audit, legal counsel should be contacted immediately.

II. Penalties for Violations of IPR

If Customs finds evidence of IPR violations, it could seize merchandise thought to be counterfeit and the company could ultimately forfeit the merchandise. Also, Customs could assess civil damages for counterfeit products amounting to the value of the merchandise for the first seizure and twice the value of the merchandise for second and subsequent seizures. According to legislation recently introduced in Congress, the damages could increase to as much as \$2 million per infringing product.

In addition, the owner of the intellectual property could bring civil claims against a company for infringement, resulting in additional damages. Finally, criminal prosecution is a possibility for any party who knowingly transports counterfeit merchandise, with imprisonment terms of up to 10 years.

III. IPR Protected by Customs

The intellectual property protection that Customs provides to companies is limited to registered trademarks and copyrights. Customs does not have the authority to prevent the importation of goods violating a patent unless instructed to do so by the International Trade Commission (“ITC”) under Section 337 of the Tariff Act of 1930, as described below.

A trademark is typically a design, slogan or brand name used to identify the source of a product or service. A copyright protects original creative works such as books, music, original paintings, sound recordings and computer programs.

IV. Benefits of Recording IPR with Customs

Although trademarks and copyrights may receive some protection from Customs without formal recordation with the agency, increased protection for a company’s IPR is afforded to those companies who record their intellectual property with Customs, which comes at minimal cost.

In order to be recorded with Customs, trademarks must first be registered with the U.S. Patent and Trademark Office (“USPTO”); copyrights must first be recorded with the U.S. Copyright Office. The purpose of taking the additional step of recording intellectual property with Customs is to enable Customs to more effectively monitor imports for potential infringing products utilizing Customs’ own internal automated systems. There is no direct link between Customs’ systems and the USPTO or the Copyright Office.

With respect to trademarks, violations can be in the form of counterfeit trademarks, confusingly similar trademarks or gray market goods. Counterfeit copies

of trademarks that have been affirmatively recorded with Customs are seized and forfeiture proceedings instituted. If the trademark is not recorded and goods bearing a counterfeit mark are imported, Customs *may* seize the merchandise if administratively feasible, but only rarely does so.

For the importation of goods with a confusingly similar trademark where the original trademark has been recorded with Customs, seizures will occur only if the importer fails to establish an exception under the customs regulations for the trademark that is confusingly similar. If a trademark is not recorded with Customs and a scenario arises where goods are imported with a confusingly similar trademark, Customs’ policy is to neither detain nor seize the goods.

“Gray market” goods are foreign-made articles that bear a genuine trademark or trade name, but are imported into the customs territory of the U.S. without the authority of the U.S. intellectual property rights holder. Such goods are only afforded protection if the trademark has been affirmatively recorded with Customs.

V. Additional Relief under Section 337

The ITC has the responsibility for conducting investigations under 19 U.S.C. § 1337 for the infringement of intellectual property. The remedy under Section 337 can be a general or limited exclusion order. A general exclusion order directs Customs to stop certain infringing articles from entering the United States, without regard to their source, whereas a limited exclusion order directs Customs to exclude only infringing articles originating from a specific company.

Cease and desist orders can also be obtained against named importers who may be engaging in acts that violate Section 337. Such orders direct a company to stop selling infringing imported articles out of U.S. inventory, and are enforced by the ITC.

Decisions in ITC Section 337 investigations are typically made within 15 months or less. Most Section 337 investigations pertain to patent or registered trademark infringement. However, other

assertions may include unfair competition, such as the misappropriation of trade secrets; false advertising; and violations of antitrust laws.

VI. Conclusion

Every company should be aware of the IPR laws enforced by Customs; both to avoid the importation of counterfeit goods, and to take affirmative steps to protect a company's intellectual property.

To ensure the highest available protection of a company's IPR, trademarks and copyrights should first be registered with the USPTO or Copyright Office, respectively, and then recorded with Customs. Procedures should be established for registering and recording new trademarks and copyrights. Companies should also conduct an internal risk assessment to ensure that they are not

importing counterfeit or infringing products and that they maintain adequate internal controls to ensure appropriate IPR authorizations are in place.

These internal controls should include: (1) detailed processes for the purchasing department to follow when contracting with suppliers; (2) procedures for identifying counterfeit goods; and (3) training programs to educate employees regarding intellectual property laws and violations.

If you have any questions regarding this information or would like assistance with registering a trademark or copyright with Customs, please contact Beata Spuhler, Customs Attorney/Knowledge Manager at Gardner Carton & Douglas LLP, at 312.569.1158 or Melissa Dillenbeck, Intellectual Property Attorney at Gardner Carton & Douglas LLP, at 312.569.1459.

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