



AMERICAN FREE TRADE ASSOCIATION
(“AFTA”)

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March 24, 2010

VIA E-MAIL

Mr. Thomas L. Stoll
Office of the Intellectual Property Enforcement Coordinator

RE: IPR JOINT STRATEGIC PLAN

Dear Mr. Stoll:

The American Free Trade Association (“AFTA”) submits these comments to the Office of the Intellectual Property Enforcement Coordinator, in response to the request for written comments on the content of the intended IPR Joint Strategic Plan (*Federal Register* of February 23, 2010 (Vol. 75, No. 35)).

BACKGROUND INFORMATION

AFTA is a not-for-profit trade association of independent American importers, distributors, retailers and wholesalers, dedicated to preservation of the parallel market to assure competitive pricing and distribution of genuine and legitimate brand-name goods for American consumers. AFTA has been an active advocate of parallel market interests for over twenty years. It has appeared as *amicus curiae* in the two leading Supreme court cases affirming the legality of parallel market trade under the federal trademark, customs and copyright acts (the 1985 *Kmart* case and the 1998 *Quality King* case) and in numerous lower court decisions.

AFTA appreciates the opportunity to be heard as a stakeholder as IPEC drafts its Joint Strategic Plan and thanks the Administration for the opportunity to provide the following comments.

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SUMMARY POSITION

For several decades, AFTA has led the charge against counterfeiters and has actively participated in crafting legislation and rulemaking focused on eradicating all forms of this illicit trade. In fact, AFTA was very involved in the discussions surrounding passage of the PRO IP ACT, is pleased that the Federal Government has appointed an Intellectual Property Enforcement Coordinator and is very appreciative that this Administration has wasted little time illustrating its commitment to develop an intellectual property enforcement strategy.

AFTA's involvement in emerging legislation has been critical to ensuring the continued availability of genuine, competitive, brand name merchandise in the midst of aggressive activity meant to punish and deter counterfeiters. Because many of the legislative proposals that have been offered during the last few Congressional sessions would have had negative, unintentional consequences for lawful parallel traders, AFTA's involvement in the process has been critical. Similarly, AFTA hopes to work with the Administration to ensure that the intellectual property enforcement strategy protects legitimate trade in genuine goods, while, at the same time, implementing strong measures to deter counterfeiters and infringers.

DISCUSSION

1. Genuine products manufactured under authority of the domestic brand owner are not counterfeit.

As a starting point, any such IP enforcement strategy must clearly define what constitutes an infringing and a counterfeit article. These definitions of illegal or unlawful products must specifically *exclude* any product manufactured under authority of the domestic intellectual property owner itself, whether directly or via license or contract. Parallel trade in genuine goods must not be targeted as high risk by Customs and Border Protection (CBP) and the IP protections already available to IP owners must not be unnecessarily expanded to provide additional means of stopping the healthy competition created solely as a result of parallel traders.

2. Products lawfully manufactured and intended for lawful distribution outside of the United States should not be seized

The economic welfare of this country depends upon our respect for other countries' intellectual property laws. While certainly it is beneficial for the Administration to encourage other countries to adopt laws and regulations that protect, prevent and penalize counterfeiting and infringing activities, it is as important to recognize that a product lawfully manufactured in one country should be able to be lawfully imported into another country without risk of intransit seizure. It is not acceptable for the United States to intercept shipments of merchandise that was never intended to, and will never, enter U.S. commerce claiming that the products violate exclusively U.S. intellectual property rights. This type of exercise of authority necessarily applies U.S. based national regulations extraterritorially, intentionally interferes with legitimate

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global commerce, and eliminates the ability of the United States to serve as a distribution center for products merely travelling through or passing the U.S. on their way to somewhere else.

To be clear, if a product is a counterfeit product it should not be permitted to be sold in any country in the world nor should it be permitted to be produced in any country of the world. However, if a product is manufactured in a country other than the United States and is destined for a country other than the United States, and in both the originating country and ultimate destination no IP regulations are violated as a result of such manufacture or distribution, the United States should not exhaust its valuable resources to intercede such an international shipment, under the guise of violation of domestic intellectual property rights.

3. Product Authentication Mechanisms

If the Administration believes that certain product codes should be standardized to better enable tracking to particular production lots or batches in order to better identify counterfeit goods, AFTA suggests that the codes be limited in content to this specific information and be clearly identified on product labels to prevent unauthorized removal.

IP owners claim that they require all sorts and types of product codes in order to verify authenticity; when, in fact, these product codes are relied upon by IP owners to verify product sources, and product distribution chains, not product authenticity. Recognizing that these codes may identify more than product authenticity and also recognizing its obligation to maintain the confidential nature of proprietary supply chains, CBP uses its best efforts to remove product codes from products before providing IP owners with product samples at the time of seizure or detention. The removal of these codes does not in any way eliminate or weaken the ability to verify product authenticity via product testing, but it will eliminate and weaken the ability of IP owners to use CBP's border enforcement mechanisms to retaliate against "unauthorized" product sources which may be discernable only through an examination of these product codes.

It is a red herring to suggest that by standardizing product coding IP owners or CBP will be any better at identifying counterfeit product. The fact is that counterfeiters can counterfeit product codes and most if not all product authentication features or mechanisms. The only method of definitively determining product authenticity is by product testing.

4. Plan must prevent against possible trademark abuse

The Administration's attention is specifically brought to Senate Bill 2369 which was recently signed into law by President Obama. This legislation contains a requirement that, within a year's time, the Secretary of Commerce, in consultation with the Intellectual Property Enforcement Coordinator, will study and report on the extent to which small business may be harmed by corporate litigation tactics attempting to enforce trademark rights beyond a reasonable interpretation of the scope of the rights granted to the trademark owner. In his introductory comments about this legislation, Senator Patrick Leahy (D-VT) indicated that:

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This legislation also requires a study of how the current system can better protect small businesses from abuses of the trademark system by larger corporations. Congress provides strong enforcement tools to intellectual property owners, as we should, to deter infringing activity and to remove counterfeit products from the market. I have become concerned, however, that large corporations are at times abusing the substantial rights Congress has granted them in their intellectual property to the detriment of small businesses. In fact, we saw a high-profile case like this in Vermont last year involving a spurious claim against Rock Art Brewery in Morrisville. When a corporation exaggerates the scope of its rights far beyond a reasonable interpretation in an attempt to bully a small business out of the market, that is wrong. This legislation therefore directs the Secretary of Commerce, in coordination with the Intellectual Property Enforcement Coordinator, to consider options for protecting small businesses from such harassing litigation, while ensuring that legitimate trademark infringement actions are handled efficiently and expeditiously by the courts.

As much as we might like to believe that domestic corporations would not intentionally rely upon intellectual property rights to harass smaller enterprises, it is true that larger corporations very often threaten litigation to, for example, obtain supplier information from parallel traders. Moreover, upon consulting IP owners when stopping a potentially infringing import at the border, CBP oftentimes simply believes the IP owner's statement that a product is counterfeit and seizes a shipment of lawfully manufactured, genuine brand name goods, even if the IP owner is simply "making it up" and has no real proof that the goods are not genuine. It is critical that not only our Congress but also the Administration recognize the potential for abuse by IP owners and implement policies and programs that deter not only counterfeiters and infringers, but also IP abusers who rely upon some notion of domestic intellectual property rights to unlawfully control product distribution, dictate resale prices and monopolize the global marketplace.

5. IP Owners must bear some risk of injuring lawful third party importers

U.S. IP owners can post a \$100 bond and obtain product samples of goods being entered by a totally unrelated third party importer. The bond is intended not to protect a falsely charged importer, but, rather, to protect against damage to the product specimen!

Brand owners can advise CBP that a product is counterfeit when it is not, there is no method for ensuring that only active, valid U.S. registrations remain on CBP lists of recorded trademarks relied upon to stop potentially infringing or counterfeit shipments, and brand owners can submit product identification guides to CBP identifying to the Agency suspected infringers – without any publication or verification of the information required. On the contrary, should CBP stop a shipment identified by a brand owner as likely violative, even if ultimately the shipment is found to contain nothing but genuine articles, the importer is forced to spend money and resources defending against unfounded charges, protecting his reputation amongst waiting

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customers, and trying to have a shipment released that with each passing day loses substantial value. There is no mechanism whatsoever for the importer to recoup those losses.

It is critical that in order for any IPR enforcement strategy to be successful, it must reflect the Administration's equal commitment to foster lawful international trade and protect our borders against infringing activity. As a few examples of how this may be implemented, the border enforcement protocols adhered to in the European Union require that the rights owner "declare" that all storage and other charges incurred by the importer will be covered by the rights owner if any allegation of infringement is found to be false. In China, a bond must be posted by a rights owner requesting seizure to protect against unsubstantiated charges. And, the WCO Model law provides for posting of security to prevent against abuse of border recordation processes. Any enforcement strategy fostered by IPEC must similarly protect lawful third party importers against unfounded charges of infringement and other illicit activities.

6. CBP policies must equally facilitate lawful trade as it must prevent entry of infringing goods

It is critical that CBP and border enforcement policies facilitate entry of lawful products under all circumstances.

- Currently, CBP may stop a shipment and delay entry on suspicion that the goods may be counterfeit or infringing. Unless the IP owner indicates unequivocally that the goods are not counterfeit, CBP may seize the shipment for lack of verification that the goods are not authentic, causing serious injury to the importer who is left with limited recourse or remedy.
- Sometimes, there is no time limit enforced against IP owners requiring that they notify CBP within a known period of time whether a detained shipment contains counterfeit product. This delay of unknown duration results in substantial loss of product value, even if the shipment is ultimately found to contain nothing but genuine, legal branded goods.
- Sometimes IP owners will advise CBP that they simply do not have the time to make the determinations themselves and that CBP should make such a decision of product authenticity itself, no matter whether CBP has limited resources or a lack of testing apparatus.
- There have also been cases of CBP providing an importer with a Notice of Detention indicating only that the shipment is being detained "for research" or for "a determination of IPR applicability" or for "further examination" without providing any further information necessary for the importer itself to "prove" product authenticity during a period of time prior to seizure.
- Many importers, have instituted policies so that samples are inspected prior to shipment, non-U.S. factories are visited before a single purchase order is issued, and suppliers are advised, in writing, that no third party trademarks should appear on goods as a condition of purchase.

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Even these importers, however, sometimes receive shipments with unknown parts or accessories bearing trademarks not appearing before on product samples and placed on components without proper certification or license. It is unreasonable for CBP to deny that importer the ability to recondition the shipment to remove any such violative IP merely because the domestic intellectual property rights holder considers such goods to be counterfeit.

7. The Lever Rule should be maintained as originally intended and implemented

The Lever Rule was crafted by the Department of Treasury after careful consideration of the need to balance the rights of consumers to genuine, cost effective brand name articles and the rights of IP owners to protect against trademark infringement. IP owners, however, have made no secret of the fact that they dislike CBP's implementation of the Lever Rule, believing it places too onerous a burden on rights holders and provides an "out" for importers violating domestic intellectual property laws.

Under the Lever Rule, if a U.S. trademark owner believes an imported article, manufactured under its authority for distribution outside of the United States, is materially and physically different from that same product manufactured and authorized for distribution in the United States, that trademark holder can notify CBP of those material and physical differences and CBP may grant "Lever Rule" protection against parallel imports. If Lever Rule protection is granted, parallel products cannot enter U.S. commerce unless conspicuously labeled to show that they are materially and physically different from those goods authorized for domestic sale by the U.S. trademark owner.

However, over the years U.S. courts and even CBP have lowered the threshold of what constitutes a "material" difference sufficient to constitute trademark infringement. Today, any minor physical or non-physical difference can be said to be "material" because it may impact a consumer's purchasing decision. There has been a spate of litigation alleging trademark infringement even though involving genuine goods merely because of alleged differences between the "unauthorized" product from "authorized" product limited only to product codes invisible to consumers that may have been removed (see *Davidoff v. CVS*), and Lever Rule protection has been granted when the only difference between the domestic and imported product was the fact that the imported product bore non-English labels and/or the importer offered its own post-sale warranty program (see granting of Lever Rule protection for CHOPARD watches).

An importer entering a genuine product with a Spanish-language label, which was manufactured under authority of the US brand owner, should be required to relabel the product prior to entry so that U.S. consumers will have access to important label information, but there is no basis to deny entry of this article which was manufactured under authority of the U.S. trademark owner, under the guise of trademark infringement. Similarly, if a reseller of a

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genuine product offers its customers a warranty covering replacement or repair of that product, why should that not be championed instead of used as evidence of trademark infringement?

Trademark owners must not be permitted to weaken the protections provided to both rights holders and lawful third party importers by attacking the sufficiency of the Lever Rule and insisting it poses too onerous a burden on brand owners. CBP must be first charged with facilitating lawful trade before it is permitted to implement Agency regulations in a manner contrary to their original intent, which has the unfortunate effect of favoring parties other than lawful U.S. importers.

CONCLUSION

Products manufactured under authority of the domestic rights holder are not counterfeit or infringing. The Administration must, as it crafts its enforcement strategy, carefully balance the needs of domestic IP owners with the needs of legitimate, smaller, third party businesses, which will also be impacted by the scope and content of these enforcement remedies.

Today, domestic IP owners are considered so injured by counterfeiters and infringing activity that they are, as a group, afforded measurable deference even to the detriment of lawful, tax-paying domestic importers interested only in providing American consumers with cost effective, genuine brand name goods and a more competitive U.S. commercial marketplace. AFTA sincerely hopes, and looks forward to working with IPEC, to craft a Joint Strategic Plan that recognizes the importance of protecting against infringing and counterfeit goods, while, at the same time, facilitating lawful trade for the benefit of American consumers and AFTA's member companies.

We would be pleased to discuss specific instances of the events described in these comments at your convenience. You may contact the undersigned or Gilbert Lee Sandler, Esq., General Counsel of the American Free Trade Association, directly at anytime.

Sincerely yours,

AMERICAN FREE TRADE ASSOCIATION

By: 

Lauren V. Perez

cc: Gilbert Lee Sandler, Esq.
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