Faux Real? How the Foreign Counterfeit Merchandise Prevention Act Helps Detect the Deceptive

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FAUX REAL?

HOW THE FOREIGN COUNTERFEIT MERCHANDISE PREVENTION ACT HELPS DETECT THE DECEPTIVE

I. INTRODUCTION

"We're going to aggressively protect our intellectual property. Our single greatest asset is the innovation and the ingenuity and creativity of the American people. It is essential to our prosperity and it will only become more so in this century."

– President Barack Obama

22,848. $10,450. $1.26 billion. Taken in order, these three numbers represent the total number of intellectual property rights ("IPR") seizures by Customs and Border Protection ("CBP") during the fiscal year 2012, the average cost per seizure, and the commercial value of the seized goods during that period. This data conveys the alarming amount of counterfeit goods that threaten to enter our borders. What is more alarming is the fact that the numbers only convey the amount of counterfeit goods seized, throwing into question the amount of counterfeit goods that actually cross the threshold.

In an effort to further combat the battle against illicit merchandise, congressional leaders proposed a new Bill, the Foreign Counterfeit Merchandise Prevention Act ("FCMPA" or "Bill"), which grants CBP officers the vital authority to disclose


proprietary information with intellectual property rights ("IPR") holders to determine whether good are genuine or counterfeit. The overarching purpose of the Bill is to prevent counterfeit merchandise from entering the United States by stopping it at the ports of entry. The Bill’s sponsors claim that only by working cooperatively with IPR holders to analyze potentially infringing goods can CBP properly execute its governmental duty of ensuring legitimate trade by seizing counterfeit goods before they enter our domestic market.

This article advocates in favor of the general purpose of the FCMPA and the heightened authority that the Bill bestows on CBP, but argues that the Bill should be revised to include a procedural safeguard to adequately protect lawful importers. Granting CBP information-sharing permission would provide the agency with the permanent statutory authority needed to adequately defend against counterfeit merchandise and protect the economy, public health and safety, and the rights of intellectual property owners, while further strengthening the United States’ global position in international trade. However, the FCMPA should not be enacted as currently proposed because the Bill does not provide importers with a method whereby they may contest a CBP decision prior to the release of proprietary information to IPR holders, who may be market competitors. Importers should be given an opportunity to prove that the merchandise is genuine before CBP is authorized to share information related to the goods.

This article analyzes the FCMPA by initially examining the history of CBP’s methods for dealing with counterfeit merchandise, and then proceeding to the benefits and consequences that may arise with passage of the Bill. Section II summarizes the background information necessary to understand the motivations that led to the proposed legislation, H.R. 22. Part A of Section II outlines the origins of CBP’s approach to dealing with counterfeit merchandise, and Part B examines a questionable interpretation of the Trade Secrets Act ("TSA") that drastically modified CBP’s approach to counterfeit goods. Part C explains CBP’s recent Interim Rule that attempted to correct the previous controversial interpretation by enabling the Bureau to disclose proprietary information under limited circumstances. Part D discusses previously proposed legislation that bears strong
similarities to the FCMPA. Section III explores the FCMPA in its entirety. Section IV addresses support and opposition to the Bill, with Parts A and B analyzing the arguments made by proponents and opponents, respectively.

Section V analyzes the issues surrounding enactment of the Bill, and the benefits and negative consequences that may occur whether or not the law is implemented. Part A discusses the relationship of the FCMPA with the TSA and Part B succinctly states why the FCMPA would be effectuated with ease. Part C provides a thorough analysis of the public policy issues and specifically addresses the FCMPA’s protection of (1) the economy, (2) health and safety, (3) international trade, and (4) IPR holders. Part D outlines the justifications for permanent legislation. Section VI advocates amending the currently-drafted Bill to include a procedural safeguard that would protect lawful importers by giving them the opportunity to prove the authenticity of suspect goods before permitting CBP to share proprietary information. While the general propositions and goals of the FCMPA are beneficial in several respects, Section VII concludes that the Bill should not be adopted unless amended.

II. BACKGROUND


The mission statement of Customs and Border Protection (“CBP”), a Bureau within the Department of Homeland Security (“DHS”), proclaims that it will “steadfastly enforce the laws of the United States while fostering our Nation’s economic security through lawful international trade and travel.” One of the

numerous functions of CBP entails detecting and preventing the importation of counterfeit merchandise into the United States.\textsuperscript{4}

In 1993, CBP proposed disclosure regulations that would allow its officers to disclose to intellectual property rights ("IPR") owners certain proprietary information related to merchandise detained or seized for intellectual property infringement.\textsuperscript{5} In accordance with administrative procedure, CBP issued a notice of proposed rulemaking that would allow CBP officers to provide IPR owners with sample merchandise and information regarding the identity of persons involved with potentially infringing goods.\textsuperscript{6}

The 1993 proposed disclosure regulations eventually came to fruition in 1998 with the addition of new rules to the Code of Federal Regulations.\textsuperscript{7} The 1998 regulations allowed CBP to share important information to applicable IPR owners, including samples of goods suspected of violating trademark, trade name, or copyright laws.\textsuperscript{8} When CBP detained suspected counterfeit merchandise, the regulations mandated that CBP provide the following information to the relevant IPR holder: (1) the date of importation; (2) the port of entry; (3) a description of the merchandise; (4) the quantity involved; and (5) the country of


\textsuperscript{5}See Copyright/Trademark/Trade Name Protection; Disclosure of Information, 58 Fed. Reg. 44476, 44476-77 (Aug. 23, 1993). Customs Service, the agency charged with trade regulation before the formation of CBP, proposed the regulation. To avoid confusion, "CBP" will be used synonymously with "Customs" throughout this article.

\textsuperscript{6}See id. at 44477.

\textsuperscript{7}19 C.F.R. §§ 133.21, 133.25, 133.42, 133.43 (2012).

\textsuperscript{8}Id.
origin of the merchandise. If the merchandise was subsequently seized, CBP was further required to disclose additional information to the potentially infringed IPR owner. This included, in addition to the previously-listed data, the name and address of the manufacturer and the name and address of the importer.

Additionally, the regulations authorized CBP to send samples of the merchandise to the IPR holder to garner assistance in determining authenticity. Upon detainment of the merchandise, CBP could send an unredacted sample to a trademark, trade name, or copyright holder for examination or testing to assist in determining whether the article was counterfeit. At any time following seizure of the goods, CBP was permitted to send an unredacted sample of the suspect merchandise to the copyright owner, but was only authorized to send redacted samples and photos to trademark or trade name owners. The regulation stated:

\[CBP \text{ may, at any time after presentation of the merchandise for examination, provide to the owner of the mark images or a sample of the detained merchandise or its retail packaging, provided that identifying information has been removed, obliterated, or otherwise obscured. Identifying information includes, but is not limited to, serial numbers, dates of manufacture, lot codes, batch numbers, and the names and addresses of the manufacturer and the importer.}\]

9. 19 C.F.R. §§ 133.25(b), 133.43.
10. 19 C.F.R. §§ 133.21, 133.42.
11. Id.
12. 19 C.F.R. §§ 133.21, 133.25(c), 133.42, 133.43.
13. 19 C.F.R. §§ 133.25(c), 133.43(c). Sample requests from IPR holders were subject to bond requirements in the form and amount specified by the port director.
14. 19 C.F.R. §§ 133.21(b)(3), 133.42(e) ("[t]o obtain a sample under this section, the copyright owner must furnish to Customs a bond in the form and amount specified by the port director"). The regulations do not specify the reasoning for the disparate treatment among IPR holders. Id. However, it may be hypothesized that counterfeit copyright merchandise would be less likely to contain protectable information directly on the sample, thereby allowing CBP to send unredacted versions to copyright owners but not to trademark or trade name owners.
numbers, universal product codes, the name or address of the manufacturer, exporter, or importer of the merchandise, or any mark that could reveal the name or address of the manufacturer, exporter, or importer of the merchandise, in alphanumeric or other formats.\textsuperscript{15}

Thus, obtaining assistance from intellectual property owners was intertwined with handling counterfeit or pirated products, and CBP routinely shared proprietary information with IPR owners during investigations of suspected counterfeit goods.\textsuperscript{16}

Following the implementation of the 1998 regulations, CBP grew concerned that the disclosure provisions violated the Trade Secrets Act ("TSA").\textsuperscript{17} The TSA bars federal employees from making unauthorized disclosures of any protected information obtained during the execution of employment or official duties.\textsuperscript{18} Protected information under the TSA includes "trade secrets, processes, operations, style of work, or apparatus, or [information related] to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association."\textsuperscript{19} This broad definition in the TSA covered "practically any commercial or financial data collected by any federal employee from any source in performance of the duties of his or her employment."\textsuperscript{20} Federal employees found to violate the statute are subject to criminal penalties.\textsuperscript{21}

Motivated to protect its officers from liability under the TSA, CBP issued a Directive in April 2000 to clarify the disclosure

\textsuperscript{15} 19 C.F.R. § 133.21(b)(3).
\textsuperscript{17} 18 U.S.C. § 1905 (2012).
\textsuperscript{18} Id.
\textsuperscript{19} Id.
\textsuperscript{20} CNA Fin. Corp. v. Donovan, 830 F.2d 1132, 1140 (D.C. Cir. 1987).
\textsuperscript{21} 18 U.S.C. § 1905. Penalties include fines, imprisonment, or removal from employment. Id.
procedures for providing samples to IPR holders.\textsuperscript{22} The Directive ordered CBP officers to "remove or obliterate any information indicating the name and/or the address of the manufacturer, exporter, and/or importer, including all bar codes or other identifying marks" on samples detained or seized for violations of trademark law.\textsuperscript{23} This process of redacting proprietary information ensured that CBP employees complied with the TSA by removing any information that could potentially disclose manufacturing or financial data.\textsuperscript{24}

\section*{B. Change in Customs and Border Protection Policy: The 2008 Redaction Process}

The effects of the redaction process implemented by the 2000 Directive were not immediately apparent.\textsuperscript{25} Throughout the early- and mid-2000s, CBP continued to provide IPR holders with unredacted photographs and samples to aid in authenticity determinations.\textsuperscript{26}

\textsuperscript{22} Customs Directive No. 2310-008A (Apr. 7, 2000), available at http://www.cbp.gov/linkhandler/cgov/trade/legal/directives/2310-008a.ctr/2310-008a.pdf. It must be noted that the plain language of the Directive did not state that samples sent to copyright owners must be redacted. Nor did the statute explicitly state that the redaction process applied to photographs sent to IPR holders. The text only referenced samples involved with violations of trademark law.

\textsuperscript{23} Id. § 5.

\textsuperscript{24} Id.

\textsuperscript{25} H.R. Res. 201-1, 113th Cong. (proposed Jan. 3, 2013).

\textsuperscript{26} Counterfeit Semiconductors – A Clear and Present Threat: Hearing Before the Subcomm. on Oversight, Investigations, and Mgmt. of the H. Comm. on Homeland Sec., 112th Cong. 7 (2011) (statement of Brian Toohey, President, Semiconductor Industry Association), available at http://homeland.house.gov/sites/homeland.house.gov/files/Testimony%20Toohey.pdf. The committee stated that, historically, when a CBP Port Officer suspected that an imported semiconductor was counterfeit, CBP would send the manufacturer of the semiconductor either a [unredacted] sample... or a photograph [to determine the product's authenticity]. Unfortunately, in August 2008 manufacturers discovered that Customs Officers had been ordered to stop sending photographs (or samples) of suspect chips showing the information required by a
In August 2008, however, CBP reiterated the redaction process outlined in the 2000 Directive out of fear that CBP employees would encounter criminal liability for violations of the TSA. The agency ordered its officers to remove all identifying marks from suspected counterfeit merchandise prior to sending samples or photographs to the IPR holder. CBP began sending redacted photos to IPR holders, which obscured all identifying information except for the trademark. The precise effects of the redacted disclosures cannot be measured since it is impossible to determine the extent that this approach caused counterfeit goods to enter the market. However, the semiconductor industry reported that before August 2008, seizures of counterfeit semiconductors increased annually. After CBP reinstituted its redaction policy, businesses in the industry began to receive an increase in complaints regarding counterfeit goods. According to industry leaders, the redaction policy obstructed the open communication between CBP and IPR holders, and made authenticity assessments impractical.

Brian Toohey, the President of the Semiconductor Industry Association ("SIA"), summarized the difficulties that industries faced during the CBP redaction period. Toohey stated that determining whether a semiconductor chip was legitimate or counterfeit based solely on redacted photographs was "nearly impossible." He elaborated by explaining that producers of counterfeit semiconductors used common exterior packaging and manufacturer to authenticate a chip, even though CBP had been sending such photographs for nearly eight years.

Id.

27. See id. at 8-9.
28. See id. at 7-8. According to Toohey, CBP did not interpret the 2000 Directive to apply to photographs until Department of Treasury officials stated so in August 2008. Id. A list of items considered to be "identifying marks" is located on page 2 of the hearing. Id. at 2.
29. See id. at 7-8.
30. See id. at 7.
31. See id.
33. See id. at 1.
34. See id. at 8.
professional laser equipment to place fake codes on counterfeit chips, making genuine goods and faux goods virtually indistinguishable.\textsuperscript{35} However, Toohey argued, the semiconductor industry would be equipped to determine counterfeit merchandise from unredacted photographs because it would provide manufacturing information that could prove or disprove authenticity.\textsuperscript{36} Regardless of the effect on various industries, CBP strictly enforced the redaction process until the implementation of an updated standard in 2012.\textsuperscript{37}

\textbf{C. The Customs and Border Protection Interim Rule: 2012}

On December 31, 2011, President Obama signed the National Defense Authorization Act for Fiscal Year 2012 ("NDAA") into law.\textsuperscript{38} Section 818(g) of the NDAA improved CBP’s ability to disclose certain information to trademark owners to determine whether products are prohibited from importation.\textsuperscript{39} In pertinent part, the NDAA authorized the Secretary of Treasury to "share information appearing on, and unredacted samples of, products and their packaging and labels, or photographs of such products, packaging, and labels, with the rightholders of the trademarks suspected of being copied or simulated."\textsuperscript{40} The purpose of granting this discretionary authority was to allow CBP officers to work collectively with trademark holders in assessing the legitimacy of suspicious marks.\textsuperscript{41}

\begin{itemize}
  \item \textsuperscript{35} See \textit{id}.
  \item \textsuperscript{36} See \textit{id}.
  \item \textsuperscript{38} National Defense Authorization Act for Fiscal Year 2012, Pub. L. 112-81 [H.R. 1540], 125 Stat 1298, § 818(g), 112th Cong. (2011), \textit{available at} \url{http://www.govtrack.us/congress/bills/112/hr1540}.
  \item \textsuperscript{39} Id. Note that the NDAA only applies to trademarks and trade names but does not reference copyright owners.
  \item \textsuperscript{40} Id.
  \item \textsuperscript{41} Id.
\end{itemize}
After the passage of the NDAA, DHS and CBP issued an Interim Rule ("Rule") to further address the information-sharing obstacles that the Bureau encountered when attempting to interdict counterfeit merchandise.\textsuperscript{42} The Rule, titled "Disclosure of Information for Certain Intellectual Property Rights Enforced at the Border," amended 19 C.F.R. Part 133 by "provid[ing] a pre-seizure procedure for disclosing information about imported merchandise suspected of bearing a counterfeit mark for the limited purpose of obtaining the right holder's assistance in determining whether the mark is counterfeit or not."\textsuperscript{43} In short, the Rule reversed the 2000 CBP Directive, which was reiterated in 2008, that required CBP to redact samples of suspect goods.\textsuperscript{44} Under this new procedure, CBP field agents are now authorized to again share certain information with owners of registered marks that had previously been prohibited based on the limitations of the TSA.\textsuperscript{45}

The immediately-effective Rule permits CBP to disclose non-redacted information appearing on merchandise or its retail packaging to an IPR holder once the goods have been

\textsuperscript{42} See generally Disclosure of Information for Certain Intellectual Property Rights Enforced at the Border, 77 Fed. Reg. 24,375-01 (2012). The National Defense Authorization Act ("NDAA") of 2011 and the Administrative Procedure Act ("APA") provide the statutory basis for the content and immediate enactment of the Interim Rule. \textit{Id.} The TSA allows disclosures meeting the "authorized by law" standard, which requires that the regulation (1) be in compliance with the APA, and (2) be based on a valid statute. \textit{Id.} at 24,376. DHS and CBP designed the Interim Rule to adhere to these conditional requirements. \textit{Id.}

\textsuperscript{43} \textit{Id.} Note that the Interim Rule only applies to trademarks and trade names but does not reference copyright owners. See generally \textit{id.}


\textsuperscript{45} Disclosure of Information for Certain Intellectual Property Rights Enforced at the Border, 77 Fed. Reg. at 24,379. In regards to suspected counterfeit merchandise, CBP may now share information including serial numbers, universal product codes, stock keeping unit ("SKU") numbers, and alphanumeric codes appearing on the goods. \textit{Id.}
The information referenced includes photographs, samples, packaging, alphanumeric codes appearing on the merchandise, serial numbers, universal product codes, and stock keeping unit numbers. In practice, the Interim Rule essentially allows CBP to return to its pre-2008 methods when dealing with counterfeit merchandise issues.

The Rule also contains procedural safeguards for legitimate trade wrongfully suspected of fraud. CBP must notify the importer of its decision to detain the merchandise and thereafter allow the importer seven days to demonstrate that the product at issue does not bear a counterfeit mark. The release of information to the potentially infringed IPR holders will only occur if (1) an importer chooses not to contest the detainment with the seven-day grace period, (2) the information is not transmitted within the allotted time period, or (3) the demonstration does not provide satisfactory proof that the article is legitimate.

CBP’s exercise of this regulatory authority allows CBP officers to lawfully disclose commercial and financial information without violating the TSA. Several legislators interpreted the NDAA to apply only to military sales, which caused confusion regarding the circumstances that must exist for CBP to lawfully disclose proprietary data. CBP aimed to resolve any ambiguity by clearly

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46. Id. at 24,376. The Rule specifically applies to merchandise suspected of bearing a counterfeit mark including certification marks, collective marks, service marks, and trademarks. Id. at 24,377.

47. Id. at 24,379.


50. Id.

51. Id. ("Only absent such a demonstration by the importer will information, images, or samples be shared with the right holder.").

52. Id.

53. Id. The legislative history of the NDAA indicated that some legislators interpreted the NDAA to apply only to military sales. See id. It is also worth noting that the Interim Rule only applies to intellectual property mark owners.
explaining that its disclosure authority extends to all imports.54

D. Previously Proposed Legislation

Upon enactment of the Interim Rule, CBP noted that Congress introduced two bills in 2011 that contained similar operative provisions to the Rule, neither of which were passed.55 Two additional bills, H.R. 4216 and H.R. 6654, were introduced to the 112th Congress in 2012.56 Representative Ted Poe sponsored H.R. 4216, titled the “Foreign Counterfeit Prevention Act,” introducing it on March 20, 2012.57 The bill was referred to the House Committee on the Judiciary, but failed to leave the Committee.58 Poe then introduced the second bill, H.R. 6654, on December 13, 2012.59 This bill, known as the original version of the “Foreign Counterfeit Merchandise Prevention Act,” was also referred to the House Committee on the Judiciary, but was still in the Committee

54. Id.
58. Id.
at the end of the congressional session and subsequently died. 60 This bill was reintroduced in the 113th Congress as H.R. 22. 61

III. PROPOSED LEGISLATION:

H.R. 22 – THE FOREIGN COUNTERFEIT MERCHANDISE PREVENTION ACT

Representative Ted Poe, on behalf of himself and six other House members, introduced the bipartisan Foreign Counterfeit Merchandise Prevention Act (“FCMPA” or “Bill”) to the 113th Congress on January 3, 2013. 62 The FCMPA garnered additional support from several Representatives and currently has seventeen total co-sponsors. 63

The FCMPA seeks to provide a permanent remedy to remove the barrier that currently obstructs the open lines of communication between the Customs and Border Protection (“CBP”) officers encountering counterfeit merchandise at the

60. Id.

61. The substantive provisions of H.R. 6654 and H.R. 22 are quite similar though not identical. The major difference is § 3(c)(1)(A), which lists the various items that are considered “critical merchandise.” H.R. 6654 enumerates twelve subsections of items and criteria that qualify as “critical merchandise” while H.R. 22 contains an abbreviated list that only includes four subsections. See Foreign Counterfeit Merchandise Prevention Act, H.R. 6654, 113th Cong. (2013); see also Foreign Counterfeit Merchandise Prevent Act, H.R. 22, 113th Cong. (2013), available at http://www.beta.congress.gov/bill/113th/house-bill/22/text.


borders, and those individuals who possess the assets to know when that merchandise is, in fact, counterfeit.\textsuperscript{64}

The FCMPA would increase the scope of information that may be exchanged between CBP and intellectual property rights ("IPR") holders by amending Section 1905 of Title 18 of the United States Code and Section 42 of the Lanham Act.\textsuperscript{65} The Bill is comprised of three Sections: Section 1 presents the short title as the "Foreign Counterfeit Merchandise Prevention Act;"\textsuperscript{66} Section 2 focuses on the amendment related to 18 U.S.C. 1905, and the exchange of information related to trade enforcement;\textsuperscript{67} and Section 3 amends the Lanham Act and addresses the prevention of the importation of counterfeit goods bearing infringing marks.\textsuperscript{68}

Section 2 would amend the federal criminal code by exempting CBP officers and employees from liability for disclosing confidential information to the owner of a copyright or registered mark, or to any person who may suffer injury by a violation of 17 U.S.C. § 1201.\textsuperscript{69} Therefore, upon detention of the merchandise, CBP may provide to IPR holders, without redaction, any information appearing on the merchandise, including its retail packaging, a sample of the merchandise, or digital images of the goods as they were presented to CBP.\textsuperscript{70} Section 2(d) defines "without redaction" as "without removing, revising, or otherwise obscuring any information, codes, marks, numbers, or any other markings that appear on the merchandise or its retail packaging."\textsuperscript{71} The permissive disclosure applies "for purposes of determining


\textsuperscript{66} Id. § 1.

\textsuperscript{67} Id. § 2.

\textsuperscript{68} Id. § 3.

\textsuperscript{69} Id. § 2(a)-(b). The Digital Millennium Copyright Act prohibits the circumvention of copyright protection systems under 17 U.S.C. § 1201.

\textsuperscript{70} Id. § 2(b)(1)-(3).

\textsuperscript{71} Foreign Counterfeit Merchandise Prevention Act, H.R. 22 § 2(d)(4), 113th Cong. (2013).
whether the merchandise or its retail packaging infringes the copyright, bears or consists of a counterfeit mark of the registered mark, or is in violation of 17 U.S.C. § 1201.”72 Section 2(c) outlines the procedures for when CBP seizes merchandise.73 Once a CBP official seizes merchandise for a violation of 17 U.S.C. § 1201, the officer or employee may provide a broader spectrum of specific information regarding the merchandise to persons injured by the violation.74 This information includes, but is not limited to: the date of importation; the port of entry; a description of the merchandise; the quantity; the country of origin; the names and addresses of the foreign manufacturer, exporter, and importer; and photographic or digital images of the merchandise.75

Section 3 proposes modifications to Section 42 of the Lanham Act.76 The amendment would replace the Department of the Treasury with the Department of Homeland Security as the government agency charged with managing infringing imports.77 This change would require the Secretary of Homeland Security to record and transmit contact information, manufacturer documentation, and copies of trademark registrations to CBP to assist the effort of prohibiting infringing goods from entering the United States.78 Section 3 deals specifically with critical merchandise, which includes items that “pose a danger to the health, safety, or welfare of consumers, or the national security of the United States.”79 If CBP suspects that critical merchandise

72. *Id.* § 2(b). Under § 2(e), the permissive disclosure of information only applies to tangible goods. *Id.* § 2(e).
73. *Id.* § 2(c).
74. *Id.* § 2(c).
75. *Id.* § 2(c)(1)-(9).
76. *Id.* § 3. The relevant Section of the Lanham Act is codified at 15 U.S.C. 1124 and is titled “Importation of goods bearing infringing marks or forbidden names.”
77. Foreign Counterfeit Merchandise Prevention Act, H.R. 22 § 3(a), 113th Cong. (2013).
79. Foreign Counterfeit Merchandise Prevention Act, H.R. 22 § 3(b)-(c), 113th Cong. (2013). Section 3(c)(1)(A)(i-iii) enumerates types of merchandise
bears a counterfeit mark and subsequently detains the merchandise, then Section 3(b) directs the Secretary of Homeland Security to provide non-redacted information to the owner of the registered trademark.  

80 This comprises any information on the critical merchandise and its packaging and labels, as well as photographs, digital images, and samples.  

81 The legislation grants the Secretary discretionary power to determine which merchandise qualifies as "critical."  

82 The Lanham Act amendments apply only to tangible goods.  

In summary, the FCMPA seeks to remove CBP officers and employees from liability for violations of the Trade Secrets Act—which prohibits the disclosure of trade secrets or other confidential or proprietary information—when the disclosure is made during an effort to intercept counterfeit merchandise.  

84 The Bill authorizes the candid sharing of information between CBP officers and IPR holders, thereby allowing CBP to obtain constructive input from those individuals possessing expert knowledge about the goods.  

IV. SUPPORT AND OPPOSITION OF THE FCMPA  

A. Proponents of FCMPA  

Rep. Poe’s support for the Foreign Counterfeit Merchandise Prevention Act (“FCMPA” or “Bill”) stems from the imperative need to equip Customs and Border Protection (“CBP”) officers with the ability to adequately and properly deal with issues that are considered “critical,” including aircraft engines, appliances, propellers, spare parts, motor vehicle equipment, and semiconductors.  

80 Id. § 3(b)(1)-(2).  

81 Id.  

82 Id. § 3(c)(1)(A)(iv).  

83 Id. § 3(d).  


involving counterfeit merchandise. Rep. Poe contends that CBP officers require the unadulterated authority to communicate information with intellectual property rights ("IPR") holders before fraudulent goods enter our domestic economy. Permitting more extensive disclosures would protect American workers, Rep. Poe asserts, by enabling CBP to overcome the obstacles they encounter in determining product authenticity, especially when vast amounts of fraudulent and potentially harmful products arrive at United States borders and ports of entry every day. Further, Rep. Poe acknowledges the sophistication of counterfeiters and the daunting task that it places on CBP. Rep. Poe stated:

Right now, CBP officers are on the front lines of trade enforcement, but they are not allowed to share information with the people most knowledgeable about the authenticity of their products – the right holders. Instead, they are faced with the nearly impossible task of inspecting all of the counterfeit and potentially dangerous goods to determine what is genuine and what is counterfeit. We are setting them up for failure. This broken system is hurting American designers and manufacturers.

Representative Lofgren, a cosponsor, echoed Poe’s opinion and furthered expressed the need to protect both consumers and manufacturers:

CBP should have the authority to share information on suspected counterfeit physical products. Without that authority, consumers and companies can receive physical goods they never intended to

86. Id.
87. Id.
88. Id.
89. Id.
purchase, which can have harmful results when the products affect public safety and health. This bill makes it clear that the new CBP authority is directed towards physical goods where counterfeits can harm consumers.91

In addition to Rep. Poe and the sixteen cosponsors, the FCMPA has gained support from several organizations, notably those who have the most to lose: IPR holders that are impacted by the illegal importation of counterfeit merchandise. When Rep. Poe first introduced similar legislation before the 112th Congress, industry leaders advocated for that bill’s ratification.92 A letter sent to the Chairman of the House Judiciary Committee expressed strong support of the bill and urged its enactment.93 The letter, endorsed by twenty companies and associations, voiced concerns regarding the infiltration of counterfeit and pirated goods and the significant threat these products pose to manufacturers, distributors, retailers and consumers.94 Furthermore, the letter addressed the Interim

Rule enacted by CBP on April 24, 2012, arguing that “CBP has promulgated new rules that continue to frustrate collaboration between public and private sectors, decrease the likelihood of interdicting counterfeit and pirated goods, and delay the entry of legitimate shipments into the country.” The signees claimed that the bill’s focus on expanding communication between CBP and intellectual property owners would be an unambiguous directive to CBP that it must work with rights holders to mitigate the harms caused by illicit trade.

Mark Elliot, the executive vice president of the Global Intellectual Property Center at the U.S. Chamber of Commerce, wrote an article in response to Rep. Poe’s original bill, H.R. 4216. Elliot promotes an open line of communication between CBP and IPR holders—the “most knowledgeable expert[s].” Prohibiting the exchange of information not only delays resolving issues of suspected counterfeit shipments, but also delays legitimate trade and commerce. Elliot declares that legislation centered upon free communication would allow CBP access to information that would prevent fakes from reaching homes while expediting lawful trade and securing domestic jobs and companies.

The FCMPA possesses additional support from the International Trademark Association (“INTA”). Finding that the

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98. Id.

99. Id.

100. Id.

101. Trade Secrets: Foreign Counterfeit Merchandise Prevention Act, INTERNATIONAL TRADEMARK ASSOCIATION,
Trade Secrets Act ("TSA") serves as a barrier to enforcement, the INTA claims that CBP should possess the authority to share proprietary and other confidential information when it concerns detained or seized goods.102

In summary, the supporters of the FCMPA claim that enactment of the Bill would lessen instances of intellectual property infringement, decrease the amount of counterfeit goods that enter the domestic market, and reduce the sales of illegitimate products that deprive IPR holders from receiving their deserved financial benefit. Authorizing CBP to combine forces with IPR holders to halt counterfeit merchandise is the means by which these goals may best be realized.

B. Opponents of FCMPA

The central argument in opposition of the Act focuses on the inevitable disclosure of proprietary information that would occur should the FCMPA be enacted. The Bill is generally opposed by international trade associations.103 The American Free Trade Association ("AFTA") makes several substantial arguments against the Act. First, AFTA disputes the benefits of the FCMPA, arguing that "[p]roviding rights holders with unredacted product samples potentially jeopardizes the integrity of trusted supply chains."104 Second, AFTA states that while CBP needs to do everything possible to prevent the entry of counterfeit merchandise that threatens public health or welfare, "it is equally important to protect the valuable trade secrets and proprietary supply chain information of lawful U.S. importers."105 Third, AFTA asserts that


102. Id.


105. Id.
the FCMPA increases the likelihood of reducing product supply and escalating prices for authentic merchandise while creating unbalanced competition in the marketplace.106 Lastly, AFTA makes the claim that "because skilled counterfeiters can easily duplicate any product marking, . . . [the Act is] unlikely to expedite or facilitate CBP’s determination of product authenticity."107

Another argument raised against the purposes of the FCMPA involves the issue of collusion that may occur between public and private parties in this arena.108 Mike Masnick, the founder or a weblog focused on technology and tech-related issues, argues that providing proprietary information to rights holders may yield untruthful analyses, or may lead to self-preserving assessments that neglect to consider legitimate uses of copyrights or trademarks, such as fair use.109 Rather than implementing legislation that encourages cooperation between the government and private parties—the IPR holders—Masnick asserts that infringement issues should be determined through a court process and adversarial hearing.110

An additional argument against implementation stems from the conflicting purposes of the FCMPA and the Trade Secrets Act.111 CBP refrained from disclosing information out of fear that doing so would lead to criminal liability of its employees for violations of the TSA.112 If CBP determines that the FCMPA does not

106. *Id.*
107. *Id.*
109. Id.
110. Id.
111. Henry Livingston, *NDAA Sec 818(g) and Expectations to Stop Counterfeits at the Border*, COUNTERFEIT PARTS (Mar. 4, 2012), http://counterfeitparts.wordpress.com/2012/03/04/ndaa-sec-818g-and-expectations-to-stop-counterfeits-at-the-border/.
adequately protect its officials, then government agencies—specifically DHS, and the Department of Treasury—may be hesitant to support to the Bill. In other words, the FCMPA seeks to prevent CBP officers and employees from suffering legal repercussions for disclosing proprietary information obtained during the course of employment. But if government officials interpret the Bill to be lacking in this regard, then it is likely that the relevant agencies will withhold support in favor of maintaining the Interim Rule, which satisfactorily protects CBP employees against TSA violations.

V. Analysis

In practice, the Foreign Counterfeit Merchandise Prevention Act ("FCMPA" or "Bill") provides an exception to the Trade Secrets Act ("TSA"). The FCMPA would authorize Customs and Border Protection ("CBP") to disclose proprietary information without fearing criminal sanctions for violations of the TSA. Congress recognized that exceptions to the TSA would be needed, as may be deduced from the bill's language that penalties would be incurred for disclosures "not authorized by law." This language unambiguously states that some disclosures are authorized, and it is this exception that grants the statutory basis for the enactment of the FCMPA.

Part A of the analysis addresses the alleged conflict between the FCMPA and the TSA, and examines the possibility of mutual coexistence between the proposed and current legislation. Part B succinctly states why the FCMPA would be effectuated with ease.

113. Henry Livingston, NDAA Sec 818(g) and Expectations to Stop Counterfeits at the Border, COUNTERFEIT PARTS (Mar. 4, 2012).
Public policy issues provide further support for enacting the FCMPA, which are discussed in Part C. The trade in counterfeit merchandise significantly threatens America’s innovation-based economy, the competitiveness of domestic businesses, and the employment of U.S. workers. Additionally, national security may be compromised by counterfeit goods if counterfeit parts are used in the manufacture of military articles. Section 1 details the effects of counterfeit merchandise on the economy and Section 2 explores the major public health and safety hazards that result from illicit goods. Section 3 briefly summarizes the role of counterfeit merchandise in the broader context of international trade, and Section 4 outlines the need to provide protection for intellectual property rights (“IPR”) holders. Part D addresses the need for permanent statutory authority since CBP’s Interim Rule may not afford the agency a challenge-proof remedy.

A. The FCMPA Would Not Impede the Function and Purpose of the Trade Secrets Act

The primary argument in opposition to the enactment of the FCMPA is that the proposed legislation conflicts with established law, namely the Trade Secrets Act. The TSA guards against the unlawful disclosure of proprietary information by government employees who obtain the data during the course of employment. The purposes of the TSA are to prevent the government from freely releasing information and to sustain privacy measures for the general public. But the TSA includes an exception for disclosure when “authorized by law.” When the government enacts legislation warranting disclosure, no violation occurs. Passage of the FCMPA would “authorize by law” the rights of CBP officers and employees to share proprietary information with IPR holders. Granting legislative permission is necessary to endow CBP with the full scope of authority needed to perform its governmental duties related to trade enforcement.

117. Id.
118. Id.
119. Id.
120. Id.
The FCMPA does not grant authorization to publically broadcast proprietary information. Rather, the Bill specifies the circumstances under which CBP may share information by outlining the limited instances when disclosure is permitted.\textsuperscript{121}

First, CBP must reasonably suspect that merchandise attempted to be imported contains a counterfeit symbol. Then the goods must be detained before any information may be released to the IPR holder. Additionally, the data may only be given to the owner of a copyright or a registered mark or any person who may be injured. The information is not listed in a public forum or announced to a vast audience. Only if the detainment results in seizure of the goods may further information, such as manufacturing and financial data, be shared. This process provides several safeguards against unwarranted disclosures to persons lacking a justified interest in the counterfeit merchandise.

However, significant questions must still be addressed: do IPR holders need all of the information listed as available for disclosure in the FCMPA to determine a product's authenticity? How does the manufacturing location and names and addresses of the importer and exporter become relevant in assessing the legitimacy of suspect merchandise? To begin, the majority of information that the FCMPA references could be obtained by purchasing the product from a retailer. Any details appearing on the merchandise or retail packaging cannot be classified as proprietary since the data is open and obvious, and no attempt has been made to keep it confidential. Therefore, any data that may be shared following detention would not result in a violation of the

\textsuperscript{121} Foreign Counterfeit Merchandise Prevention Act, H.R. 22, 113th Cong. (2013). As stated previously, CBP may only share itemized information upon detention of suspect goods, including any information appearing on the merchandise, including its retail packaging, a sample of the merchandise and its retail packaging, or digital images of the merchandise and its retail packaging. \textit{Id.} § 2(b)(1)-(3). If the shipment is subsequently seized, then CBP would be authorized to additionally disclose the following information pursuant to § 2(c): date of importation; the port of entry; the description of the merchandise from the entry; the quantity involved; the country of origin of the merchandise; the name and address of the foreign manufacturer; the name and address of the exporter; the name and address of the importer; and photographic or digital images of the merchandise. \textit{Id.} § 2(c)(1)-(9).
TSA. The potential conflict with the TSA arises post-seizure when the disclosures involve certain information—financial data and the names and addresses of the importer, exporter, and foreign manufacturer—that would not be made public but for disclosure by CBP officers who seized the goods at the port of entry.122

In addressing this issue, the American Free Trade Association argues that since skilled counterfeiters can easily duplicate any product marking, any disclosure would be unlikely to facilitate CBP’s determination of product authenticity.123 This argument lacks persuasion and, unintentionally, lends support for permitting disclosures. If counterfeiters possess the ability to recreate product markings, then the need to share additional information becomes vital to a proper assessment of suspect merchandise. A sample of counterfeit merchandise may contain such convincing detail that it superficially appears authentic. IPR holders may not be able to determine, based solely on analyzing the product, whether or not it is legitimate. The next logical step is to provide the mark holder with the necessary information to distinguish infringing goods from authentic goods, which may be determined by evaluating the manufacturing location, the identification of the importer and exporter, and the costs of the goods. Based on this line of reasoning, the need may arise where the disclosure of this information becomes critical in adequately classifying merchandise as illegitimate. If the customs form lists a manufacturing plant that the IPR holder knowingly never licensed, then that establishes prima facie evidence that the goods may be counterfeit. Additionally, if the exporter lists the value of the goods well below the manufacturer’s suggested retail price, a red flag is raised that the goods infringe. This information may supply the only means necessary for CBP to accurately determine that merchandise is counterfeit.

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122. The TSA guards against the disclosure of proprietary information, including information that concerns the “identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association.” See 18 U.S.C. § 1905.

It is also worth noting that the information authorized for disclosure under the FCMPA is essentially limited to (1) data appearing on the product and its packaging, and (2) the data required by importation documents. Customs forms do not oblige exporters to record the manufacturing processes or operations used to create the merchandise.124 Exporters would not be inclined to provide confidential information related to trade secret techniques or formulas with shipments of goods since this data is not required to pass through U.S. customs, nor is it likely that sophisticated manufacturers would risk the disclosure of this information should the goods be intercepted or lost in transit.

Alternatively, a counterargument may be raised that IPR holders, by obtaining proprietary information of possible competitors, could misuse the information to overreach the power conferred by their IPR in an effort to stifle competition. CBP’s reliance on the expertise of trademark and copyright owners assigns a significant amount of power on IPR holders who may potentially conclude that legitimate goods are counterfeit as a way to deny competing goods from entering the marketplace. But the likelihood of such occurrences seems minimal at best. First, CBP is not obligated to adhere to the conclusions drawn by the IPR holders. Agency officials deal with counterfeit issues on a daily basis and are well-equipped to know when an assessment would be dubious and self-serving. Second, the legal ramifications of falsifying information would be severe. Not only would the IPR holder be guilty of obstructing CBP in performing its duties, the holder would also be liable for violations of unfair competition laws.125 The negative consequences that would occur outweigh any perceived benefit, logically leading to the conclusion that IPR holders would refrain from giving improper assessments solely for personal gain.


125. See, e.g., 15 U.S.C. § 45. This provision authorizes the Federal Trade Commission to prohibit unfair business practices and unfair methods of competition in or affecting commerce. IPR holders would be liable for criminal sanctions if found guilty of engaging in a deceptive act.
Additionally, 18 U.S.C. § 1832 criminalizes the misappropriation of trade secrets, thereby granting manufacturers and trade secret owners with a protective shield against improper or accidental disclosures that may arise. If an IPR holder exploits its position and mishandles the proprietary information shared with it by the CBP, then the government could bring criminal charges against the IPR holder. Placing the burden on the government to bring a federal claim for trade secrets violations—as opposed to placing the burden on the IPR holder to bring an infringement claim after merchandise is imported—is supported based on the presumption that the number of trade secret violations that may occur under the FCMPA would be drastically less than the number of infringement violations that would occur if the FCMPA were not passed. As mentioned previously, it seems less likely that lawful owners of intellectual property would knowingly violate their cooperative effort with the government in order to obtain competitors' trade secrets.

The FCMPA does not conflict with the TSA for the simple reason that the Bill grants CBP lawful authority to disclose proprietary information, thus satisfying the statutory requirements of the TSA. The TSA allows disclosures of this nature when they are authorized by Congress. The primary issue surrounding the TSA involves balancing the disadvantages and potential consequences faced by CBP and IPR holders against the importers’ right to privacy. The injustices faced by IPR holders significantly outweigh the limited privacy violations that legitimate importers may encounter.

B. Ease of Effectuating the FCMPA

The goals of the FCMPA would be easily implemented by CBP based on both the prior enactment of the Interim Rule and the methods used by CBP before 2008. The FCMPA essentially includes the previous procedures used by CBP whereby the department could share proprietary information with IPR holders. Since these procedures for disclosure have already been used, implementation of the Bill would not require significant additional resources or investments by CBP or by IPR holders. Additionally, CBP already employs Import Specialists whose job responsibilities
include correspondence with IPR holders during investigations of suspect merchandise. This relieves the agency of the significant economic burden of hiring and training new personnel because CBP would not need to create new job positions or enlarge its staff to satisfy the agency’s communicative duties under the FCMPA.

Further, the Interim Rule enacted by CBP bears strong resemblance to the FCMPA, though certain differences do exist. The FCMPA broadens the spectrum of protection by encompassing both copyright and trademark owners. However, CBP is currently equipped with the necessary features to communicate with all IPR holders depending on the circumstances; the only difference between the FCMPA and the current communication procedures is the types of information that may be shared. The FCMPA would enhance the depth of the information-sharing abilities between CBP and copyright owners, but this change does not affect the methods used by CBP to actually communicate the data. CBP, therefore, is sufficiently prepared to implement the FCMPA without facing any significant obstacles that could arguably hinder the general functions of the agency.

C. Public Policy Favors Enactment of the FCMPA

Enactment of the FCMPA affects various public policy issues. This Section analyzes the most significant issues debated by proponents and opponents of the Bill. Section 1 outlines the impact that counterfeit merchandise has on the economy, namely the financial consequences for businesses, the effects on the job market, and the decrease in tax and duty revenue. Section 2 evaluates the scope of the major public health and safety hazards that result from illicit goods, including examples of specific dangers to personal health and national security. Section 3 addresses the role of counterfeit merchandise in the broader context of international trade, and briefly outlines the efforts by countries to institute harmonizing treaties and trade agreements. Section 4 examines the goals of intellectual property laws in the United States and the need to provide protection for IPR holders.
1. Protecting the Economy

$1.26 billion. As previously mentioned, this figure represents the commercial value of IPR seizures conducted by CBP during the 2012 fiscal year. Counterfeit merchandise deprives IPR holders from legitimate sales and simultaneously robs consumers of genuine goods. Consequently, counterfeit products that infiltrate the market threaten manufacturers, distributors, retailers, and consumers in general. American businesses outsource a vast amount of production to foreign countries. However, through licensing agreements and diligent control, manufacturers can successfully utilize international work to bring desired goods to U.S. purchasers in the quantities needed to fill demand. But counterfeiters impede this process and negatively impact the economy when they import unauthorized merchandise, which destabilizes the market and disincentivizes cooperative efforts between American and foreign industries.

Not only do counterfeit goods directly threaten the commercial marketplace, they also endanger the American job market. When consumers—either knowingly or unknowingly—purchase counterfeit merchandise, the lawful manufacturer is deprived of sales. As sales of counterfeit goods rise, job security with legitimate U.S. companies declines because businesses are not reaping the financial benefit of their investments. Consumers may purchase counterfeit goods at a bargain price point, thereby robbing companies from sales that would have been made but for the availability of infringing products. Companies are then forced to reduce production and eliminate employees since they lack the revenue to pay workers, resulting in decreased job availability for the American workforce.

Another cause for concern related to counterfeit merchandise is the effect these goods have on duty collections and tax revenue. Counterfeit merchandise sold outside the realm of legitimate commerce is not taxed under federal or state laws. Federal tax dollars fund numerous government services, such as health care, national security, and Social Security. State taxes sponsor local government initiatives ranging from public schools and highways to police protection and waste management. Many of these services operate on money collected in commerce, such as
importation duties and state sales tax. Counterfeit importers escape the obligation of paying duties associated with the importation of lawful goods. Further, when these goods are illegitimately sold, no tax dollars are collected. This deprivation of funds contributes to an insufficient supply of money for the government programs previously listed, thereby causing citizens to suffer the consequences. Our domestic economy is designed so that the sale of goods contributes to the broader welfare of the people. Counterfeit merchandise directly conflicts with this purpose.

These drastic economic consequences caused by counterfeit products could be diminished by enhancing CBP’s ability to stop illegitimate shipments at the borders, specifically by allowing agency officers to share information with IPR holders. The current structure of CBP is ill-equipped to solely manage the number of suspicious shipments arriving daily at the ports of entry. CBP employs Import Specialists who are responsible for making determinations regarding product authenticity and preventing prohibited goods from entering the country.

While these employees are often capable of verifying that certain goods are counterfeit, instances arise where a conclusive analysis cannot be made without the expertise of IPR holders. Under those circumstances, the Import Specialists enlist the aid of IPR holders to determine the legitimacy of suspect goods. Collaborative efforts between CBP and IPR holders have resulted in countless seizures of counterfeit goods during intellectual property enforcement operations.

The results of the joint efforts between CBP and IPR holders are frequently acknowledged through press releases informing the public of CBP seizures. One example of the impact of this cooperative relationship occurred during the nine days before the 2013 NFL Super Bowl.

By working closely with trademark
holders, CBP seized over 60,000 counterfeit items worth more than $3.4 million.\(^{128}\) Another example occurred in October 2012 when CBP intercepted a shipment of counterfeit watches that infringed the Audemars Piguet trademark.\(^ {129}\) CBP officers suspected that the goods bore illegitimate markings, and received confirmation of infringement from Audemars Piguet, the mark owner. This determination prevented $83 million worth of unauthorized faux watches from entering the U.S. market.\(^ {130}\) These instances show the drastic economic effect that can occur when only two shipments of counterfeit goods account for a combined total of over $86.4 million in merchandise.

Though the work of Import Specialists may be satisfactory under certain circumstances, CBP cannot singlehandedly make every determination of whether goods are illegal. These two examples above clearly illustrate that CBP cannot always properly assess counterfeit marks without the aid of IPR holders.\(^ {131}\) Without the assistance of the mark holders, these goods likely would have gained entry since CBP officers working independently of the IPR holder may not have been able to definitively determine their falsity.

Counterfeit goods threaten the stability of American businesses and, consequently, the domestic job market. The government is hindered from collecting duties and taxes on faux products, which decreases funding towards federal and state government initiatives. Allowing CBP to disclose relevant information with IPR holders

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128. Id.


130. Id.

would abate the detrimental outcomes that may occur when counterfeit goods breach the borders.

2. Protecting Public Health and Safety

Perhaps more important than the economic harm incurred by counterfeit merchandise is the threat that these goods pose to health and safety. While concern over the rights of intellectual property owners is a fundamental concern of the proposed legislation, protecting public health and safety occupies a principal focus of the FCMPA. National safety becomes threatened when counterfeit merchandise penetrates the borders. Substandard goods that lack sufficient quality control and testing can harm citizens and cause confusion in the marketplace. Consumers purchasing a trusted brand are lead astray when they receive items lacking the attributes associated with reputable businesses, and people buying counterfeit goods may be fooled into believing that the products contain the safety features promised. These problems may arise whether an entire product is counterfeit or whether a single element is fake.

Almost all products can be and are counterfeited.132 Every industry must deal with infringing goods and the negative effects that they can have on consumers caused by unsatisfactory safety checks. Ingestible goods—such as pharmaceuticals, tobacco, and food products—pose a plethora of dangers to health ranging from temporary side effects to death.133 Utilitarian goods—such as automotive products, children’s toys, and electrical appliances—


similarly cause a variety of safety risks when not manufactured within the confines of licensing agreements. Merchandise made with sub-par components, as is the case when counterfeiters produce goods as opposed to IPR holders that strictly monitor production, frequently results in unsafe and potentially hazardous products. Incidentally, some counterfeit merchandise poses significant health and safety risks whereas others pose a more direct economic harm. Those goods that fall into the former category may be properly labeled as “critical merchandise,” which the FCMPA addresses directly in section 3(b).  

To illustrate the negative impact that illicit goods have on safety, consider an advisory issued by the U.S. Department of Transportation’s National Highway Traffic Safety Administration (“NHTSA”). In October 2012, NHTSA publicly notified consumers about the dangers of counterfeit air bags. The NHTSA learned of problems related to the sale of counterfeit air bags for use as replacement parts in vehicles that were involved in a crash. Testing conducted by the NHTSA revealed that the fake goods looked nearly identical to certified, original automotive parts, but the counterfeit air bags malfunctioned in a variety of ways ranging from non-deployment of the air bag to the discharge of metal shrapnel during deployment. The NHTSA further warned that the illegally-imported goods bore the insignia and branding of major automakers. The advisory listed over one hundred different vehicle models potentially affected by

134. Foreign Counterfeit Merchandise Prevention Act, H.R. 22 § 3(b), 113th Cong. (2013). “Critical merchandise” includes aircraft engines, appliances, propellers, and spare parts; motor vehicle equipment; semiconductors; and any other article of manufacture that the Secretary determines could pose a danger to the health, safety, or welfare of consumers, or to the national security of the United States. See id.
136. Id.
137. Id.
138. Id.
counterfeit air bags and advised consumers to take precautionary measures to have their vehicles inspected and the air bags replaced if necessary. Ray LaHood, the Department of Transportation Secretary, stated “[a]nytime equipment that is critical to protecting drivers and passengers fails to operate properly, it is a serious safety concern.” To further summarize the severity of the issue, John Morton, the Director of Immigration and Customs Enforcement (“ICE”), claimed “[o]rganized criminals are selling dangerous counterfeit and substandard airbags to consumers and suppliers with little to no regard to hazardous health and safety consequences. We will continue to aggressively investigate criminal supply chains with our law enforcement and private industry partners and bring these criminals to justice.” This quote properly encapsulates the problems that counterfeit goods place on consumers: not only does the purchase of counterfeit merchandise further criminal activity, it also risks the safety of the general public who unknowingly purchase deficient goods.

Another major concern stems from the harm caused by counterfeit merchandise when it seeps into the military supply chain, thereby disrupting national security efforts. The U.S. imports products that are used for the defense of our nation. An increasing volume of counterfeit electric parts are entering the Department of Defense (“DOD”) supply chain. Subject matter experts within the U.S. defense industry support the position that

139. Id. The article provided guidelines for those individuals that would be most affected, specifically a car owner whose vehicle had been in an auto accident that resulted in the replacement of an air bag by a repair shop that was not affiliated with a new car dealership during the three years prior to the publication of the advisory. See id.

140. Id.


142. Henry Livingston, NDAA Sec 818(g) and Expectations to Stop Counterfeits at the Border, COUNTERFEIT PARTS (Mar. 4, 2012) http://counterfeitparts.wordpress.com/2012/03/04/ndaa-sec-818g-and-expectations-to-stop-counterfeits-at-the-border/. The argument regarding whether the U.S. should, in fact, import merchandise manufactured in another country for the defense of this one is a debate left for another author.

143. Id.

https://via.library.depaul.edu/jatip/vol24/iss1/5
interception of counterfeit parts at the border is the best method for preventing those goods from being used in the manufacture of DOD products.  

The Semiconductor Industry Association ("SIA") added its support in favor of allowing CBP to return to its pre-redaction methods when dealing with counterfeit merchandise. Semiconductor "chips" are used in everything that is computerized or uses radio waves, including military equipment such as missiles, jets, and navigation systems. After discovering that counterfeit semiconductor chips used in military products more than doubled between 2005 and 2008, industry leaders realized the real harm that counterfeit semiconductors could have on national security if not properly addressed. The incorporation of faulty semiconductors is a blatant threat to the safety of Americans when the chips are used in devices meant to protect our country. As these examples demonstrate, the threat to health and safety caused by counterfeit merchandise cannot be overstated.

3. Protecting International Trade

The negative effects of counterfeit merchandise exist on a global level. While this article focuses on the impact of illegal goods in the U.S., virtually every economy must face the detrimental consequences caused by faux products. The problem is exacerbated by the increasing sophistication of counterfeit equipment and the ever-expanding use of the internet by international consumers. The broad reach of computer

144. Id.
146. See id. at 3.
147. See id.
technology enables individuals to purchase goods from overseas that are counterfeit (albeit advertised as authentic), thus leading to a rise of illegal merchandise entering the international stream of commerce.\textsuperscript{149} This raises a plethora of problems because the merchandise is shipped outside the parameters established by international trade agreements. Instituting rules to intercept counterfeit goods at ports of entry is necessary for the U.S. and its foreign trading partners to fully comply with their obligations under international trade protection treaties. Only by taking a strong stance against the importation of counterfeit goods can the U.S. retain its position as a leader in international trade, and continue to set a vital precedent for the protection of intellectual property across the globe.

The U.S. has endorsed several international agreements, such as the Anti-Counterfeiting Trade Agreement ("ACTA"), the Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPS"), and the North American Free Trade Agreement ("NAFTA"), in an attempt to protect legitimate trade with foreign nations.\textsuperscript{150} While countries worldwide have joined

\textsuperscript{149} "Gray-market goods" also pose a significant threat to international trade relations. These goods are generally defined as foreign-manufactured goods, bearing valid U.S. trademarks, that are imported without the consent of the U.S. trademark holder. See generally K Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988). This article focuses on addressing the issues involved with counterfeit merchandise bearing counterfeit marks rather than the expansive and often contentious area of gray-market goods. In short, the FCMPA may, in practice, help to stifle the importation of gray-market goods, but that is not the stated purpose of the proposed legislation nor the focus of this article.

\textsuperscript{150} ACTA is a multinational treaty that originated in October 2011 and currently has thirty-one signatories including the U.S. Unsurprisingly, the top two sources of known counterfeit goods, China and Hong Kong, have not endorsed ACTA. See Intellectual Property Rights Fiscal Year 2012 Seizure Statistics, United States Custom and Border Protection Office of International Trade, CBP Publication No. 0172-0113 (2013). Seizures from China and Hong Kong totaled $1.1 billion as valued by MSRP. Id. at 13. NAFTA governs trade issues among the U.S., Canada, and Mexico. TRIPS is an international agreement that establishes minimum standards for intellectual property law protection in international trade. The agreement is administered by the World Trade Organization and has been signed by 158 parties. See id.
forces to protect intellectual property rights on both international and national levels, these efforts at establishing standardized approaches to trade are often hampered and circumvented by counterfeiters. For instance, the illegal importation and exportation of textile products between the U.S. and Mexico violates NAFTA, hinders legitimate trade, and results in a collective loss of revenue between the neighboring countries. This example shows that although trade agreements provide a working framework for protecting commerce, it is essential to enact enhanced legislation to further guard against illegal trafficking of goods. International agreements lose forcefulness when countries refuse to implement necessary measures to defend against the unlawful importation and exportation of illegitimate goods.

As previously stated, the general purpose of the FCMPA involves authorizing CBP to share information and samples of potentially counterfeit goods with IPR holders, thus allowing the IPR holders to provide expert knowledge and assistance to properly determine the legitimacy of the goods in question. By preventing illegal goods from entering the country, the U.S. establishes the standard that counterfeit goods have no place in our domestic market. Enacting legislation that enforces trade obligations showcases the country’s dedication to protecting intellectual property. This article narrowly focuses its attention on the domestic problems arising from counterfeit goods, but the issue unquestionably exists on a broad, global scale. International commerce wholly suffers at the hands of counterfeiters. While the FCMPA may, in effect, function as a trade barrier, its broader role would establish international trade harmonization by honoring lawful commerce partners.

4. Protecting Intellectual Property Rights Holders

The United States seeks to protect the various forms of intellectual property through patent, trademark, and copyright

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law. Creators and inventors earn protective rights under the statutory schemes enacted for their protection, thus incentivizing individuals to share their intellectual property with the public knowing that it is safeguarded against misuse. The efforts of the United States Patent and Trademark Office and the United States Copyright Office lose stability when counterfeit merchandise breaches our borders. IPR holders rightfully feel entitled to the protection that the law guarantees, and advocate the enactment of other legislation—like the FCMPA—that would further the goal of maintaining and protecting their intellectual property rights.

By protecting IPR holders, the FCMPA would reduce unnecessary litigation and avoid wasting judicial resources caused by forcing IPR holders to bring infringement claims after the counterfeit goods entered the country. Currently, IPR holders can bring suit in U.S. jurisdictions only against the importers of counterfeit merchandise. But this raises an important question: why wait for the merchandise to cross the threshold when CBP can prevent entry of the counterfeit goods beforehand?

Halting the importation of counterfeit merchandise alleviates the need for future litigation by IPR holders to enforce rights that existed at the time of the unlawful importation. It seems contrary to the purpose of granting intellectual property rights if the U.S. is unwilling to further safeguard them by enacting legislation that contains preventative measures. When infringers blatantly attempt to import counterfeit merchandise, the issue should be addressed before the merchandise enters the country. This fortifies the position of the U.S. that unlawful trade will not be tolerated, and that Congress will ratify laws that are necessary to further this goal. Burdening IPR holders to deal with counterfeit merchandise

152. See generally Titles 17 and 35 of the United States Code (Copyright and Patent laws, respectively); see generally 15 U.S.C. § 1051 et seq (Trademark laws).

153. The FCMPA clearly states that the protective measures contained in the Bill apply to copyright owners and owners of registered marks. Foreign Counterfeit Merchandise Prevention Act, H.R. 22 § 2(b), 113th Cong. (2013). This would incentivize creators and businesses to register their intellectual property with the appropriate federal office—the Copyright Office or the U.S. Patent and Trademark Office—to obtain the protections guaranteed by the FCMPA.
after it has seeped into the domestic marketplace is a severe disadvantage. IPR holders face numerous obstacles, specifically in obtaining the information needed for bringing suit. Finding the names and addresses of the importers and exporters, locating the manufacturing information, and obtaining samples of the infringing goods can be time-consuming and costly. CBP could aid IPR holders in avoiding excessive discovery expenditures since the agency has access to all of this essential information when the counterfeit goods land at the port of entry.

IPR holders must readily confront infringement issues to maintain rights and protect their intellectual property. Forcing IPR holders to further protect their rights against foreign infringers when CBP could easily prohibit the infringing goods from entering the country is contrary to the goals of intellectual property protection and an obvious waste of litigation and judicial resources. Congress should exercise its lawmaking authority to institute preventative measures that minimize the negative effects that counterfeit merchandise causes to IPR holders, while simultaneously shielding the court system from avoidable litigation.

D. The Need for Permanent Congressional Legislation

The majority of rules in the United States are promulgated by regulatory agencies, and such rules carry with them the force of law. Government departments may implement rules that safeguard and protect the nation, provided they are empowered to do so through their respective organic statute.154 In this case, CBP acted

154. See 5 U.S.C. § 553 (2012). Sections 553(b)(B) and 553(c) provide an exception from the customary process of rulemaking by an agency. Normally an agency must issue a proposed rule and allow the public to comment, thus satisfying the notice and comment requirements instilled by the APA. However, under certain circumstances, agencies are permitted to issue a rule that is immediately effective. CBP claimed that this Interim Rule qualified for the “good cause” exception because it “addresses an immediate need to address without delay vulnerabilities in our military and government procurement process, as well as an immediate need to interdict goods bearing counterfeit marks that pose health and safety risks to the American public.” CBP stated that, in accordance with §§ 553(b)(B) and 553(c), good cause existed to
within its delegated power when it issued the Interim Rule pursuant to the "good cause" exception of the Administrative Procedure Act ("APA"). But that is not to say that the Rule will proceed without challenge. As one scholar noted, courts construe the good cause provision narrowly. Courts contextually evaluate agency interim rules and place the burden on the agency to sufficiently demonstrate the imperative circumstances that led the agency to enact the rule without prior public participation. Furthermore, interim rules are more frequently upheld if limited in duration. A possibility exists that the Interim Rule may be challenged and found invalid. Therefore, the Rule may only be a temporary solution to a problem that will foreseeably increase with the advancement of the technological sophistication of counterfeiters. A permanent statutory solution is the best means for securing CBP's power to share information related to counterfeit merchandise since it is procedurally more difficult to challenge a statute than an agency regulation.

Over the past several years, CBP has proposed methods to aid the agency in its fight against counterfeit goods. The most recent of those efforts, the Interim Rule, expands CBP's disclosure authority, but lacks several features that the FCMPA would provide. For example, the Interim Rule only affects counterfeit trademarks, leaving copyright holders with less protection. Balancing the attention paid to both realms of intellectual property is vital to suitably protect IPR holders. Additionally, the FCMPA incorporates a provision to address "critical merchandise" that may be detained immediately.


155. See 5 U.S.C. § 500 et seq. The APA prescribes the procedures that administrative agencies must follow when proposing and issuing federal regulations.


157. Id. at 719-722.

158. Id. at 724. The Interim Rule refrains from including an end date, thus indicating CBP's intention that the Rule last indefinitely, or at least until the agency issues a final version of the Rule.
Furthermore, refusing to grant CBP statutory authority to disclose proprietary information will disservice both CBP and IPR holders. CBP cannot adequately prevent counterfeit goods if Congress refuses to equip them with the necessary tools to execute its job. Congress acts contradictorily by placing the onus on CBP to stop infringing merchandise at the borders, yet declining permission for officers to disclose information to determine whether goods are, in fact, authentic. The government is essentially requesting that CBP fight the war against illegal trade, but is refusing to properly arm the agency to complete the task.

The FCMPA unambiguously outlines the procedural steps that CBP officers may take when encountering counterfeit merchandise. The statute would put all parties on notice, and provide adequate boundary lines for the circumstances under which information may be shared. Manufacturers of counterfeit merchandise will know the possible consequences that may ensue from efforts to import illegal merchandise. No longer will the Trade Secret Act give counterfeit product producers an escape hatch to avoid liability for blatant infringement. Rather, the FCMPA will likely deter counterfeiters from attempting to place goods in trading lanes destined for the U.S. Heightening the communication between CBP officers and IPR holders would show the international trade community that infringing goods will face daunting obstacles at the ports of entry.

VI. PROPOSED REVISION TO THE FCMPA

The current draft of the FCMPA would successfully protect IPR holders and help to abate the negative consequences that occur when counterfeit goods reach the public. Lawful importers can—for the most part—be confident that there goods will legitimately continue through the stream of commerce, while concurrently knowing that CBP is better positioned to combat unlawful competitors. However, the FCMPA fails in one noteworthy respect: it contains no provision granting importers an opportunity to demonstrate that goods detained by CBP are actually authentic before releasing information to interested IPR holders. In this respect, the FCMPA inadequately protects legitimate trade and should be amended prior to enactment.
The Interim Rule states that, upon detention of suspected counterfeit merchandise, CBP must send a notice of detention to the importer of record. Upon receipt of the notice, the importer is given seven (7) days to demonstrate that the article in question is genuine. Only absent such a demonstration is CBP authorized to share information with IPR holders. The FCMPA noticeably lacks any analogous procedural safeguard. Under the proposed approach of the FCMPA, CBP may disclose information upon detainment, upon seizure, or immediately where it concerns “critical merchandise.”

Though the FCMPA outlines the procedures CBP must follow when encountering suspect goods, the Bill does not include language requiring CBP to notify the importer before the agency is permitted to share information. Foregoing this procedural notice requirement that gives importers the ability to contest detainment of a shipment allows CBP to quickly address urgent situations involving goods that may cause immediate harm. But this approach completely neglects the rights of importers. Based on the volume of merchandise that arrives daily at the ports of entry, it would be naive to conclude that CBP will combat counterfeit merchandise with complete accuracy. Inevitably, situations will occur where shipments are mistakenly detained by CBP for any number of reasons and certain lawful importers will suffer under the existing version of the FCMPA. Importers should have the right to contest a decision by CBP before proprietary information may be shared, even where the merchandise may be categorized as “critical.”

The Bill should be redrafted to include a method that protects importers by offering them an opportunity to prove the legitimacy of the merchandise within a specified period of time. The FCMPA should be revised to incorporate the “Notice Provision To Prevent

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159. “Critical merchandise” includes aircraft components, motor vehicle equipment, semiconductors, and any other article that the Secretary of Homeland Security determines may pose a health and safety danger, such as cosmetics, drugs, food, and children’s products. Foreign Counterfeit Merchandise Prevention Act, H.R. 22 § 3(c)(1), 113th Cong. (2013).
Economic Harm to Legitimate Importers” from the text of the Interim Rule. This provision states that CBP will enact:

[A] procedure that provides the importer the opportunity to demonstrate to CBP, within seven (7) days of a notice of detention, that the article in question does not bear a counterfeit mark, before releasing information to the right holder. Only absent such a demonstration by the importer will information, images, or samples be shared with the right holder.\(^{160}\)

Without such a provision, valid importers face economic harm that can occur when goods get delayed or seized in transit. Restricting legitimate trade can cause as much harm as permitting illegitimate trade. The Bill must consider the rights of lawful importers on par with the rights of lawful IPR owners, and provide a balanced and fair approach on both sides of the border. The FCMPA should grant importers a meaningful opportunity to contest a CBP decision by providing evidence of product authenticity. Counterfeiters will be ill-equipped to demonstrate that the goods are genuine, and lawful importers will be permitted to authenticate the goods and allow them to continue through the supply chain.

CBP must include a procedural safeguard whereby the agency notifies the importer of record when a shipment is detained. Only upon the incorporation of this procedural safeguard, or something similarly effective, should the FCMPA be adopted.

**VII. CONCLUSION**

Counterfeit goods continually threaten to breach our national borders. As technology advances and counterfeiters become increasingly sophisticated, the imperative need for Congressional legislation intensifies. While it is difficult to argue that the dangerous effects of a faux Louis Vuitton bag should be weighed

equally with a faulty air bag, both impact consumers nonetheless. Enacting the Foreign Counterfeit Merchandise Prevention Act ("FCMPA") to authorize information-sharing would benefit the economy, protect citizens from avoidable health and safety hazards, safeguard the rights and investments of trademark and copyright holders, deter foreign counterparts from attempting to import illegitimate merchandise, and ensure that the U.S. maintains its position as a global forerunner in the protection of intellectual property rights. However, the Bill must provide a procedural safeguard to adequately protect lawful importers and ensure that they receive a fair opportunity to prove the legitimacy of their goods. If modified accordingly, Congress should pass the Bill and explicitly grant CBP authority to disclose unredacted information to both trademark and copyright intellectual property rights holders for the purpose of making counterfeit determinations. Ratifying the FCMPA would be a permanent remedy to the inevitable predicaments caused by the international trade of infringing merchandise.

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