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# Praxis

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## Counterfeit Corner

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### Leveraging the ITC to Fight Fakes

The owners of popular brands, trademarks, and designs have been confronted with a rising tide of counterfeits and knockoffs. The products may be straight counterfeits — products using the trademarked brand names and identical to the legitimate product—or knockoffs, which copy a designer or brand’s style, trade dress, or patented designs without containing logos or brand names but are still so confusingly similar that consumers assume that they are branded products. Though knockoffs are not a new phenomenon, the internet has made it easier than ever to sell knockoffs, a byproduct of the ease of e-commerce, increased demand for designer and name brand products, and greater access for sales to more people in more places. In fact, a recent estimated that sales of fakes and counterfeits are growing at 15 percent each year and would reach *\$1.8 trillion* this year, with e-commerce making up more than a quarter of that. The damage isn’t limited to luxury goods manufacturers. Footwear is the most counterfeited item, with other heavily copied goods including toys, perfumes, and handbags. The most copied brands worldwide are Ray-Ban, Rolex, and Louis Vuitton. The overwhelming majority of counterfeit goods are imported with more than 80 percent coming from

either Hong Kong or China. The problem is so bad that even the Department of Homeland Security is trying to crack down.

The struggle of brand, trademark, and design owners to fight counterfeits and knockoffs has been aptly described as a game of whack-a-mole. Overseas knockoff artists selling over the internet are both hard to find and difficult for U.S. courts to obtain jurisdiction over, if their true identity can even be ascertained. The plethora of infringers means brand owners have to sue in multiple courts, expending money, time, and effort obtaining an injunction, which can take years, particularly when patents are involved. Then, when the injunction is obtained, they often find that it may not be enforceable against fly-by-night makers who are located overseas and are essentially judgment proof, or who change their name or address and resume selling. Similarly, they expend effort to get knockoffs removed from one website, only to find that the seller merely starts selling on another website or under another name.

### Limitations of U.S. Customs Enforcement

Many companies also try to stem the tide by registering their trademark with U.S. Customs. This strategy can be useful in certain

circumstances, but does not apply to patents, design patents, unregistered trademarks, distinctive trade dress, or non-trademarked aspects of branding and packaging, nor can it be used to stop true knockoffs, which do not use the brand name or logo. Some examples illustrate the degree of effort and frustration undergone by brand owners. Farouk Systems Inc., owner of the “CHI” mark used for hair irons and hair products, was faced with a flood of counterfeits and knockoffs coming in through websites, distributors, and eBay. Farouk filed *over 21 lawsuits* in the U.S. district courts, hired a company to monitor websites selling unauthorized products, and worked with eBay to prevent sales of knockoffs and was still unable to stop the tide of infringing products.<sup>1</sup> The products of LitePanels, an Emmy-winning producer of lighting panels, were so widely copied that over 60 manufacturers produced over a thousand infringing products for sale. The infringers evaded punishment by importing their goods under multiple and changing business and brand names, engaging in extensive rebranding, and changing the methods of importing their products.<sup>2</sup> After trying other methods to stop the infringement, all three brand owners eventually turned to the USITC to seek a General Exclusion Order and obtain relief. Farouk and LitePanels both obtained General Exclusion Orders (GEOs) from the USITC barring counterfeits and knockoffs from entering the United States.

### How Can Brand Owners Utilize the ITC?

The USITC is an independent government trade agency in

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Washington D.C. that helps protect companies with significant U.S. operations from products made overseas that infringe their intellectual property. Although the agency is often thought of as a resource for makers of high-tech products, it is by far the most expedient, cost-effective way for companies to stop counterfeits from coming into the United States, particularly when the items are being sold over the internet and it is difficult to locate the actual source of the fake goods.

A brand owner that receives an ITC General Exclusion Order receives the right to have U.S. Customs stop any goods from entering the country if they infringe its intellectual property—be it a design patent, trademark, trade dress, copyright, passing off or even deceptive advertising. The infringing goods are stopped at the border, regardless of where they are coming from and who is attempting to sell them. To take advantage of the ITC, the rights owner, however, must not only own the relevant intellectual property but must also have a “domestic industry” in the United States.

Once the proceeding for a GEO is initiated, it proceeds much like a district court proceeding, following the same discovery procedures, albeit on a much-expedited basis where discovery seldom lasts more than seven months. In many ITC investigations, in addition to the rights owner and the accused infringer there will be a third side participating — an investigative attorney from the ITC’s Office of Unfair Import Investigations participates to protect the public interest. The hearing, which happens within nine months of the beginning of the investigation, is before an administrative law judge without a jury. The judge will issue her opinion within three

months of the hearing, and then this opinion is subject to review by the ITC commissioners, and by law the ITC’s final decision must issue within 16 months of the investigation’s start. In practice, many GEO orders issue in less than 16 months as defendants in knockoff cases often default, allowing brand owners to obtain relief in less than a year and with less expense than most companies anticipate. Once obtained, the exclusion orders are primarily enforced by U.S. Customs, not the brand owner, and are generally in effect as long as the intellectual property right is valid.

A key difference between the ITC proceedings and those of the district courts is that the ITC proceedings are in rem, and this fact offers brand owners many advantages. As the stories of Farouk and LitePanels show, a major limitation of the district courts is that their jurisdiction generally relates to the accused infringer, and thus their orders can be evaded when an infringer changes their name or address. Moreover, the injunctions are not effective against parties whose identities or locations are unknown, such as internet sellers. As GEOs exclude all violating products, regardless of their makers’ name or address, the GEO is still effective when sellers change their names or locations, or when the identities of sellers are unknown. Indeed, the GEO will exclude the products of sellers who were not even manufacturing at the time the GEO went into effect, or the products of makers who individually sell amounts too small to make prosecution cost-effective, yet collectively sell enough to harm.

In addition to trying the district courts and registering their trademarks with Customs, brand owners often try to work with individual websites, like eBay

or Amazon, to fight counterfeits and knockoffs, but this too has limitations, primarily relating to efficiency. Intellectual property owners must go through a separate process for each individual website — eBay, Amazon, Ali Baba, etc., and sometimes may have to go through a separate effort for each seller or listing on the site — monitoring all listings and reporting them individually to the website and asking for them to be taken down. The monitoring of all the websites and listings, plus the time it takes to report the listings and make sure they are taken down, may be extremely time consuming and further, is generally only done on the largest websites, leaving sales through smaller channels untouched. As the GEO stops the products themselves from entering the U.S., regardless of the seller they are going to or were produced by, it allows the rights owner to address the infringement on multiple sites, and by multiple sellers in one proceeding.

## **Examples of How Brand Owners Can Get Results from the ITC**

The advantages of a GEO described above explain why it is attractive to holders of intellectual property. Some well-known companies have already used USITC proceedings as part of their brand protection strategies, and the number of companies seeking General Exclusion Orders is increasing. For example, Crocs saw the popularity of their foam footwear spike in the early Aughts and became proactive about protecting its distinctive shoes. They obtained design and utility patents to protect them, but still

saw cheap imitators swamp the market. Making matters worse, the products were coming in from various countries, under numerous names and untraceable sources, making enforcement almost impossible. To stop the inflow, Crocs filed a complaint with the USITC asserting both its utility and design patents. It also asserted that its products' distinctive appearance and image were protected trade dress. The USITC issued a General Exclusion Order barring all knockoffs which infringed Crocs' patents from entering the country.

In 2011, Louis Vuitton was in a similar situation with knockoffs of its popular handbags being made and sold at a rapid pace. To illustrate, just one of the known counterfeiters of its products was capable of producing up to 200,000 units per style,<sup>3</sup> The company tried numerous strategies to prevent the sale of these ubiquitous knockoffs, including sending cease-and-desist letters, bringing trademark enforcement lawsuits

and even instituting criminal suits. It finally approached the USITC and received a General Exclusion Order barring knockoffs that used certain Louis Vuitton trademarks.

## Conclusion

News of the GEO's benefits have been spreading and IP rights holders have been increasingly availing themselves of the ITC as a forum to fight knockoffs. For the past five years, the number of General Exclusion Orders issued has steadily increased, with six issued in 2019 alone. The industries availing themselves of this tool included water filters, sports equipment, LEDs, housewares, mobile phone accessories, clothing, footwear, and printer cartridges, and the rights protected include trademarks, design patents, and utility patents. The parties utilizing the ITC to fight knockoffs in recent years include names like Bose, Electrolux, Converse, Canon, and Segway.

This diversity in brands and types of products shows the flexibility and power of the ITC GEO.

The USITC does have some disadvantages. It requires that brand owners have significant U.S. operations; doesn't award damages for past sales; and involves procedural rules that can be tricky, often trapping the inexperienced. Despite these, all owners of brands, trademarks, and patented designs seeking to reduce counterfeits and knockoffs should seriously consider the benefits of this tool.

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1. *Certain Hair Irons and Packaging Thereof*, USITC Inv. 337-TA-637, Commission Opinion, June 20, 2009.

2. *Certain LED Photographic Lighting Devices and Components Thereof*, USITC Inv. No. 337-TA-804, Commission Opinion, February 28, 2103.

3. *Certain Handbags, Luggage, Accessories, and Packaging Thereof*, USITC Inv. 337-TA-754, Commission Opinion, June 13, 2012.

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