

*Creative
Anti-Counterfeiting:
Solutions
for Combating
Counterfeiting
Online*



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A recent study on Internet traffic reported that websites featuring pirated digital contents or counterfeit goods were visited 53 billion times last year, representing 146 million times every day, of which 87 million visits were to websites selling counterfeit goods, such as prescription drugs and luxury items.¹ This article discusses ways brand owners can protect their intellectual property rights through monitoring, enforcement and preventive measures to combat online sales of counterfeit goods and digital piracy.

Online counterfeiting is a serious problem

While common impressions of counterfeit goods may be a knock-off purse purchased from a street-vendor in New York City or a pair of designer sunglasses bought at an online auction, other common forms of counterfeit products include pharmaceuticals, nutritional supplements, cosmetics, construction materials and automobile parts. Although a knock-off designer purse is not likely to kill us, sub-standard airplane parts, untested building materials, or unapproved drugs or nutritional supplements just might.

The costs associated with counterfeiting are both economic and social, and impact both the consumer and producer. According to the International Chamber of Commerce, piracy and counterfeiting activities around the globe will cost US\$1.7 trillion by 2015, and put 2.5 million legitimate jobs at risk each year.² In addition, the revenue stream produced by the sale of counterfeit items has been traced to unethical and criminal ends, which support illegal efforts such as child labor, terrorism and organized crime. Such counterfeiting directly decreases the brand owners' profits and dilutes their intellectual property rights. Thus, the counterfeiting industry implicates a spectrum of economic and societal costs.

New avenues for online counterfeiting

The avenues for selling counterfeit goods and pirated digital contents have grown exponentially with the ever-improving technological advancement in telecommunication, Internet-based devices and social media platforms. Aside from the traditional online sale of counterfeit goods at online auction sites, marketplace sites or business-to-business sites, such as eBay, Amazon Marketplace or Alibaba, counterfeit sellers also use Internet and social media tools to generate web traffic and divert consumers to rogue ecommerce websites to sell counterfeit goods.

For example, sellers of counterfeit "branded" products may register a domain name such as "buy-branded-product.com" and create a rogue site that sells such counterfeit branded products. The site may have the same look and feel as the brand owner's site. The counterfeit seller may also create pseudo product reviews and/or blog entries about the product to bolster its fake legitimacy. Susceptible consumers who searched for reviews of the branded product may fall prey to the counterfeit sellers.



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Counterfeit sellers may also create rogue profiles on social media sites, such as Facebook and Twitter, to bolster its fake credibility. For example, counterfeit sellers assume Twitter usernames that are variations of the brand names, and impersonate the brand owners on Twitter. They answer tweets or post tweets directing users to their rogue sites to buy counterfeit products. Similarly, many rogue sites may also have "matching" Facebook company pages that imitate the brand owners' Facebook company profiles.

In a further example, counterfeit sellers post YouTube videos that may include a brand name as part of the title or contain the brand owner's copyrighted contents to attract users to their rogue sites. Similarly, online forums and community boards are often littered with advertisements for online pharmacies outside the United States that purport to sell "generic" versions of patented pharmaceuticals that have no approved generic equivalents.

Given the seemingly boundless scope of the Internet and the anonymity of online counterfeiters, brand owners face an increasingly difficult challenge in combating such rampant counterfeiting activities to protect their intellectual property rights and maintain the goodwill associated therewith. The Internet, while promising for information exchange and developing business opportunities, presents considerable challenges for preventing counterfeiting and enforcing intellectual property rights.

Combat Tool #1: Protect your brand by registering your intellectual property

The first and most important step that a brand owner can take to protect its brand is to register its trademarks and copyrights with the applicable trademark and copyright offices. This fundamental step in intellectual property protection provides a springboard from which enforcement measures may originate and is a particularly cost-effective approach when resources are scarce. It requires the brand owners to review their intellectual property portfolios, identify gaps and submit the appropriate applications for federal registration.

The lack of formal protection by the trademark and copyright offices is not fatal to enforcing one's rights. In many jurisdictions, trademark rights vest upon use of the mark, and copyrights are effectuated upon creation of the work. Although trademark and copyright registration are preferable — as they more strongly support enforcement

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effort, allowing for a federal copyright cause of action and international enforcement actions — such registration is not mandatory to enforce a brand owner's rights.

Combat Tool #2: Monitor your brand online

While copyright and trademark registrations provide legal protection and potential remedies against infringers, the burden falls on the brand owners to police their own intellectual property rights. The brand owner should actively monitor auctions, websites and torrent activities, online advertisements, sponsored links and online content that reference the brand name. Running keyword searches using the brand names, or a variation thereof, usually results in a good list of rogue sites and sponsored links for review. However, it may be cost prohibitive to review each search daily. The scope and frequency of the review varies depending on the brand. Monitoring can be done in any budget, from self-monitoring to engaging an outside vendor to run and review searches.

For self monitoring, searches can be automated using Google Alerts, in which a keyword search can be specified to run periodically or as it happens, and the results can be sent by email for review. On the other end of the spectrum, for large trademark portfolios, outside vendors can identify suspicious registration of domain names and/or rogue sites using proprietary software.

Many large search engines recognize the rampant use of online advertisement of counterfeit goods and have begun to institute new initiatives to help brand owners to identify and eliminate advertisements that are associated with specific keywords and/or adwords. For example, Google uses automated tools to analyze thousands of signals to help prevent bad advertisements from being shown, and it shut down 50,000 AdWords accounts for attempting to advertise counterfeit goods by way of sponsored links over the last six months in 2010.³

Further, brand owners should also keep a watchful eye on sites such as Twitter and Facebook to avoid any impersonation attempts that may dilute the value of the brand name. As technology continues to change, and popular online sites and tools evolve, it is important that brand owners stay up-to-date and shift their focus as well.

Combat Tool #3: Enforce your brand

Regardless of whether brand owners federally protect their trademarks and copyrights through registration, they may enforce their intellectual property rights against online infringers by sending demand letters, also known as cease-and-desist letters, or notice-and-takedown letters. The brand owner may demand the infringer discontinue use of the trademarks and copyrighted work, and provide an accounting of the profits. Further, the brand owner may demand that the infringer reveal the source from whom he acquired the counterfeit goods.

If the domain owner's information is unavailable or the domain owner is unresponsive to the demand letters, brand owners may pursue alternate avenues for removing the infringing contents from the site or shutting down the site, depending on the facts and the intellectual property rights at issue.

The brand owner may target the Internet service provider (ISP) responsible for hosting the rogue site by sending the ISP a demand letter. In the letter, the brand owners may point to the terms and conditions to which the domain owner agreed when registering with the ISP. Often, the terms and conditions include language stating that the domain owner agrees to refrain from posting information on its site that infringes on the intellectual property rights of third parties.

Similarly, the brand owner may also send a demand letter to the support team at social media sites and community forum sites to report copyright and trademark misuses. In addition to pointing to the terms and conditions to which the user agreed when signing up for an account with the sites, the brand owners should also provide information about the location and web address of the infringing contents to aid in the removal process.

The facts of each case will dictate the best enforcement approach for brand owners, depending on the jurisdiction in which they seek enforcement of their rights. For example, if the infringing content is copyright protected, such as proprietary videos, songs, software or games that are frequently posted without authorization as torrents, the ISP must, once it receives notice of infringement, remove the infringing material to avoid liability for copyright infringement under the Digital Millennium Copyright Act (DMCA).⁴ By sending a DMCA notice to the ISP, the brand owner places the ISP on notice of the

ACC Extras on... Combating Counterfeiting Online



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infringing material on the subject website, and the DMCA notices provide a safe harbor for ISP to remove such contents before becoming a contributory infringer. While DMCA notices are specific to the United States, other jurisdictions have similar avenues of protection. Many torrent sites outside of the United States also honor brand owners' DMCA notice for removal of contents. As such, it is important for brand owners to federally register their copyrights when possible.

Internet giants, such as Google, are also helping brand owners to enforce their intellectual property rights. For example, Google has invested over \$60 million to prevent violation of its advertising policy, including creating an online help center and online complaint forms for brand owners to notify Google of ads for potentially counterfeit goods.⁵ It has also pledged to respond to brand owners' complaints within 24 hours to remove such ads.

China-based ecommerce giant *Alibaba.com* is also stepping up its efforts to help brand owners to protect their valuable intellectual property assets. In June 2011, it announced that it would prohibit listings of optical disc products that contain audiovisual contents, i.e., DVDs and CDs, on its business-to-business wholesale marketplace sites.⁶ It has actively worked with the Motion Picture Association of America (MPAA) to remove infringing products sold on its sites in the past two years.⁷ MPAA applauds Alibaba's positive ban to "eradicate the plague of counterfeit discs finding their way into the US and other international markets."⁸ Indeed, while the number of pirated and counterfeit goods grows annually, this ban is a positive step to combat international piracy and counterfeiting in the ecommerce trading platforms.

Further, anti-money laundering laws are another approach to make counterfeiting financially unattractive by cutting the stream of money to the counterfeiters. For example, the Bank Security Act and its many amendments make it illegal for banks to hide money derived from criminal activity and require banks to report cash transactions over \$10,000 via the Currency Transaction Report. Similarly, the Patriot Act increases the exchange of information among financial institutions, requires verification of customer identity and requires anti-money laundering programs across the financial services industry.

A practical example of this increased regulation is PayPal, a mechanism of online payment for goods purchased online. PayPal is a global financial institution and is subject to US anti-money laundering laws. PayPal has policies and procedures to detect, prevent and report any suspicious activity. As a global financial institution, PayPal screens its customer lists against government watch lists. According to its Acceptable Use Policy, PayPal prohibits users from using its services for "the sales of products or services identified by government agencies to have a high likelihood of being fraudulent."⁹ When enforcing one's intellectual property rights, brand owners may directly contact PayPal to report infringing use. The counterfeit seller has fewer prospects for online financial transactions if PayPal terminates his account.

While perhaps most promising, the anti-money laundering laws may also prove most challenging to implement. Their dynamic and complicated nature requires interdisciplinary collaboration from the private sector and various government agencies, both within the United States and abroad.

Combat Tool #4: Preventive measures

Preventive measures may also be used to protect against trademark infringement, such as recording trademark registrations with customs agencies in various countries. However, this approach is limited by customs protection availability in specific countries, and by the brand owner's ability to obtain a federal registration in the country where it seeks to register the trademark with customs. Brand owners should also be responsive and willing to cooperate with customs officers in reviewing seizure notices and seized samples of goods.

For example, in the United States, brand owners with a US federal trademark registration may record the registration with US Customs and Border Protection. The fee is only \$190 per class of goods for each trademark, and the customs registration must be renewed upon the renewal of the trademark registration. Through educating the customs officials on the brand owner's goods, providing them with information of authorized manufacturers and distributors, and identifying particular ports where suspected counterfeit goods enter the country, brand owners have successfully worked with US Customs officials in confiscating counterfeit goods at the border. It is often difficult to track small shipments of counterfeit goods into the country through the mail. However, officials have had success with tracing counterfeit goods to larger counterfeiting operations. Notably, Canada and Mexico do not have trademark recordation procedures in place with their customs departments, making registration with US Customs particularly important for goods being shipped through and from Canada and Mexico.

The European Union (EU) also enforces and protects intellectual property rights by using customs monitoring. The EU Customs Regulation¹⁰ provides the framework for customs action against suspected counterfeit goods. Although the EU-wide and national customs application have been harmonized in all EU member states, there is currently no unified EU customs entity. Instead, the member states work together to exchange information through a common information system. For a brand owner to file an EU application for action by customs authorities, the brand owner must have applied for, or be registered with, a Community intellectual property right, including: Community trademarks, supplementary protection certificates, Community designations, Community-protected designations of origin, Community-protected geographical indications, Community-protected geographical designations for spirit drinks, or Community-protected plant variety rights. If the brand owner only has national, European or international rights, the brand owner may only seek customs protections in the specific countries from which its rights derive.

Chinese Customs offers border protection for trademarks that are registered and unregistered, through enforcement ex officio and enforcement by application, respectively. Similar to the procedure in the United States, enforcement ex officio is appropriate where the registered trademark is recorded with the General Administration of Customs. Under this approach, customs officials may seize and detain goods without the direction of the trademark owner to specific shipments. In contrast, enforcement by application allows the trademark owner of an unregistered, well-known mark or an unrecorded, registered mark to file an application with Customs to request that a specific shipment be withheld. This latter form of customs protection requires more specific information by the brand owner to alert the customs officials to a particular source.

While perhaps most promising, the anti-money laundering laws may also prove most challenging to implement.

Another cost-effective preventive approach available to brand owners is securing their supply chain. By carefully screening vendors, brand owners reduce the risk of vendors selling and distributing the goods outside the distribution chain and personally profiting from those sales. Further, the brand owner may also demand information about where the entity has acquired the goods bearing the trademark to first determine if the goods being sold are authentic or counterfeit, and second, if authentic, to determine if the goods have been acquired from an authorized vendor.


Brand owners may further prevent counterfeiting by regularly changing their product design or incorporating anticopying mechanisms into their product designs. Modifying the design allows the brand owner to more easily track counterfeit products. For example, the brand owner can monitor online auctions and review the packaging of the goods for sale. Innocent consumers purchasing counterfeit goods may complain to the brand owner that they did not receive the most recent version of the goods, thereby alerting the brand owner that counterfeit goods are being sold. A brand owner's incentive to continue to expend resources to redesign their goods comes from having consumers purchase authentic goods. Thus, it is necessary to educate consumers as to the effects of purchasing counterfeit products.

The Internet creates a **Wack-A-Mole game**, where these often anonymous infringers are **shut down and almost instantly reappear**, demonstrating the need for a **multi-faceted approach**, constant monitoring and a **diligent enforcement policy** to prevent continued infringement.

Similarly, by incorporating anticopying mechanisms, such as encryption, or including a specific tag on the product, brand owners may prevent counterfeiters from accessing and easily replicating authentic goods. For example, brand owners may design their websites in a manner that prevents people from printing the entire website pages. Or brand owners may design their products to integrate a tag that allows only the brand owner and enforcement entities to readily discern between counterfeit and authentic products.

Collaboration is key

The expansion of the Internet presents brand owners with increasing challenges to cost-effectively prevent infringement on their intellectual property rights, and enforce those rights when infringement has occurred. The Internet creates a Wack-A-Mole game, where these often anonymous infringers are shut down and almost instantly reappear, demonstrating the need for a multi-faceted approach, constant monitoring and a diligent enforcement policy to prevent continued infringement. Depending on the specific intellectual property rights implicated and the availability of federal registrations in various countries, brand owners may elect to protect and enforce their rights through a variety of ways, including sending cease-and-desist letters, ensuring a secure distribution line, screening vendors, redesigning packaging and registering the relevant

marks with various customs departments. While there remains a need for stronger laws and harsher penalties to help brand owners better protect their intellectual property rights, the most promising deterrence is to ultimately make counterfeiting an unprofitable enterprise. To date, this seems only possible through collaborative efforts by brand owners, ISPs, search engines and law enforcement agencies to combat these counterfeit sellers. 

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NOTES

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