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INTELLECTUAL PROPERTY CONSIDERATIONS AND ISSUES FOR IMPORTERS AND EXPORTERS

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U.S. Customs and Border Protection (CBP) is tasked with the responsibilities of securing United States borders and facilitating lawful international trade and travel. In facilitating lawful international trade, CBP examines goods to ensure that they do not violate U.S. laws protecting intellectual property rights (IPR). In this connection, Customs inspects imported and exported goods to ensure they do not infringe upon trademarks, patents, and copyrights. Infringing imported merchandise can be seized and forfeited and large monetary penalties can be assessed. Criminal action also can be initiated. Customs can take similar action against infringing exports, even foreign goods that are merely transiting the United States en route to another country. In this article, we discuss some of the basic principles involved in Customs IPR enforcement actions, touch upon some of the practical issues that importers and exporters may face when IPR are involved, and offer some suggestions for avoiding problems in this area.

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U.S. Customs Seizures and Penalties. A good portion of Customs' enforcement actions are taken against imported merchandise that contains a "counterfeit" trademark or a mark that is "confusingly similar" to a registered trademark. In the absence of the written consent of the trademark owner, counterfeit merchandise is invariably seized and forfeited and penalties equal to the resale value in the United States of the genuine article are assessed (twice this amount for subsequent violations). The importer also can be subject to criminal penalties, as recently has occurred in a number of well-publicized cases involving counterfeit handbags, computers and cell phones, athletic gear, and wearing apparel. In the case of confusingly similar merchandise, Customs may release the merchandise conditional upon the importing removing the infringing mark or it may allow the goods to be returned to origin, but Customs will allow this only where it determines that the mark was innocently applied. Where Customs believes the use of the confusingly similar mark was intentional, it will seize and forfeit the goods. Also, it is important to note that Customs often treats as counterfeit what others might commonly conclude is merely confusingly similar.

Customs also will seize and forfeit merchandise violating U.S. copyright laws ("piratical articles") or merchandise imported in violation of exclusion orders issued by the International Trade Commission (ITC) under Section 337 of the Tariff Act of 1930, as amended. (19 USC §337)

Section 337 is a law which permits U.S. companies to obtain relief against imported goods that violate U.S. patents. Under Section 337, a patent holder can enforce its patent rights against foreign exporters and U.S. importers before the ITC in a fast track proceeding. If the ITC determines that the U.S. company's patent is valid, it will issue exclusion orders barring the importation of infringing merchandise. Importations violating an exclusion order may be seized and monetary penalties may be imposed. The maximum penalty that the ITC may impose for violation of an exclusion order is a daily penalty equal to the greater of \$100,000 or twice the value of the infringing products imported or sold on a

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particular day. Recently, the ITC imposed a penalty of \$6,242,500 for violation of an exclusion order. (See 79 FR 33951).

When Congress tasked CBP with monitoring and enforcing intellectual property laws, CBP made no secret of the fact that it felt it did not possess the necessary expertise to examine and rule upon the various issues that are involved in these cases and further explained that its resources were already stretched thin, as they are today. CBP's objections, however, were disregarded by Congress, and it was instructed to enforce the laws, although with no appreciable increase in funding. Like a good soldier, CBP accepted this decision and now aggressively enforces the law. However, we believe that CBP's initial objections were valid, and while CBP Headquarters reviews detentions and approves seizures, the initial decisions are being made by officers in the field, many of which have very limited experience with intellectual property. This results in a good number of detentions and seizures being cancelled, but the problem, of course, is that the final decision to cancel the case commonly takes up to a year or longer.

Importers and Exporters Due Diligence. Importers and exporters act at their peril when they fail to take measure to ensure that their products are in compliance with U.S. intellectual property laws, and often are surprised when Customs notifies them that their goods have been detained on suspicion of being in violation of intellectual property rights. Some importers manage risk of infringement by using contract clauses that require their vendors to certify or promise to use only properly licensed components. Reliance on such contract provisions, however, leaves companies at the mercy of their suppliers. The only way to ensure that merchandise is IPR compliant is by actively monitoring vendors and requiring evidence that the vendors and their suppliers are authorized to use the intellectual property in the products. This first step involves knowing the identity of the marks and technology on the outside and inside of the product. The second step is obtaining evidence in the form of license agreements that the vendors and their subcontractors are authorized to use the intellectual property. The third step is to

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verify that the vendor has manufactured or purchased sufficient quantities of authorized products.

As mentioned above, companies dealing in products incorporating intellectual property must know what is on the outside and inside of their products because Customs examines the outside and the inside of products when monitoring compliance with intellectual property laws. Customs routinely opens up electronics goods and examines the components and matches these internal components against lists of parties authorized to manufacture them. Many companies maintain such lists of authorized users on websites that are readily accessible to CBP. Where a manufacturer of a component is not shown as an authorized party, Customs will detain the goods until satisfied that the component was manufactured by an authorized user. In examining software for infringement, Customs will run the program and examine all the trademarks and trade names identified in the software and will verify that the manufacturer is authorized to use the marks.

Service marks owned by standards bodies such as UL, CSA, HDMI, etc. continue to be a major problem for importers. The service mark holders aggressively enforce their marks and we have seen electronics products valued in the hundreds of dollars seized and forfeited because a \$0.75 counterfeit cord set was attached to an otherwise legitimate article.

A recent case we handled involved the use of the trademark "HDMI", which stands for "Hi-Definition Multimedia Interface." The trademark owner, an entity founded by electronics manufacturers for the purpose of standardizing HD connections, describes HDMI as the "de facto standard connecting high-definition (HD) equipment, from HDTVs and personal computers to cameras, camcorders . . . and just about any other device capable of sending or receiving an HD signal." A foreign manufacturer applied the non-stylized words "HDMI Input" to a computer portal to indicate the location for plugging in the electrical cord. The trademark owner took the position that even though the manufacturer of the

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motherboard to which the plug was inserted was an authorized HDMI adopter, the mark was infringing because the manufacturer of the finished product incorporating the motherboard was not an authorized user. Clearly, HDMI thought it was entitled to another royalty payment from the maker of the end product, even though the maker of the HDMI portal already had paid royalties to HDMI. We argued that use of the mark was permissible under the “fair use” doctrine. We likened the alleged violation to the situation which the Court of Appeals for the 9th Circuit found frivolous in the *Dual-Deck Video* case, where a company registered the mark “VCR -2 R” and then sued a number of companies for trademark infringement when they used the mark on receivers to indicate the location of the VCR-2 portal.¹ While we were successful in getting the forfeiture remitted, it took more than a year for Customs to reach decision. This underscores the necessity of preventing these issues from ever arising, something that can be done only by properly managing the risks that come with dealing in products incorporating intellectual property.

Protecting Your Own Intellectual Property. U.S. companies owning trademarks or service marks are well advised to register them with U.S. Customs and Border Protection. CBP can detain merchandise that violates the trademark or service mark of a U.S. company, regardless of whether the owner of the mark registered it with Customs. However, we highly recommend that the registration procedures particular to CBP be followed. This results in entry of the mark into CBP’s IPR database and gives a CBP registrant a higher profile than those who elect not to register with CBP. Registration of marks with Customs is an inexpensive way to help stop infringing imports and exports.

The Chinese Government is now examining exported merchandise to ensure that it does not infringe anyone’s intellectual property rights. While this is a welcome development, it also has resulted in the rise of a new industry in China. Chinese

¹ See *In re: Dual-Deck Video Cassette Recorder Antitrust Litigation*, 11 F.3d 1460 (9th Cir. 1993).

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companies are now registering common worldwide trademarks in their own names. When the Chinese manufacturer attempts to export the trademarked goods, the Chinese authorities detain the goods until the approval of the Chinese trademark owner is obtained. Therefore, if you manufacture trademarked goods in China or are thinking about manufacturing trademarked goods in China, we recommend that you register your marks in China. Otherwise, your goods could be held hostage and the Chinese authorities could brand you a trademark violator.

Tom O'Donnell is a member of Clark Hill PLC, a full-service law firm with offices in 12 states. A member of Clark Hill's International Trade Practice Group, he concentrates on issues arising from the movement of goods between countries and regularly deals with U.S. Customs and Border Protection, the Commerce Department, State Department, and other agencies that regulate U.S. imports and exports.. He also is a Licensed Customs Broker. todonnell@clarkhill.com, 312-985-5570, todonnell@clarkhill.com.

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