

Written Testimony of
Travis D. Johnson
Vice President – Director of Legislative Affairs and Policy

On Behalf of
The International AntiCounterfeiting Coalition

Legislative Hearing on H.R. 4216,
the "Foreign Counterfeit Prevention Act

United States House of Representatives
Committee on the Judiciary
Subcommittee on Crime, Terrorism, and Homeland Security

March 28, 2012

Chairman Sensenbrenner, Ranking Member Scott, Members of the Subcommittee:

Thank you for the opportunity to appear before you today to discuss these issues of great concern to the members of the International AntiCounterfeiting Coalition, and to intellectual property owners, generally.

With a membership composed of over 200 corporations, trade associations, and professional firms, and founded over 30 years ago, the IACC is one of the world's oldest and largest organizations representing exclusively the interests of companies concerned with trademark counterfeiting and the related theft of intellectual property. The members of the IACC represent a broad cross-section of industries, and include many of the world's best known companies in the apparel, automotive, consumer goods, entertainment, pharmaceutical, and other product sectors. The IACC is committed to working with government and industry partners in the United States and abroad to strengthen IP protection by encouraging improvements in the law and the allocation of greater political priority and resources, as well as by raising awareness regarding the range of harms caused by IP violations.

Since 2005, I have served as the Coalition's principal advisor on legislative and policy matters. For the past six years, I've worked closely with the Coalition's members on a variety of initiatives, primarily focused in the areas of intellectual property protection, and related international trade issues. And for nearly as long, the issues before the Committee today, have been priority concerns for the IACC's membership at-large.

I'd like to thank Congressman Poe and Congressman Chabot for their recognition of these concerns, and their sponsorship of H.R. 4216, the Foreign Counterfeit Prevention Act.

Overview

As the Committee is no doubt aware, counterfeiting has become an enormous problem for American manufacturers, to the tune of billions of dollars each year. In recognition of the harm caused by this illicit traffic, Congress has enacted numerous laws prohibiting the trafficking of counterfeit goods, and other goods which violate the rights of intellectual property owners. Today, most of these goods are produced overseas, then imported into the United States via cargo container, or as is the case more frequently in recent years, by international mail and express delivery services. As a result, U.S. Customs and Border Protection is rightfully viewed as our first line of defense against counterfeit goods.

With an estimated \$2 trillion in imports entering the United States each year through over 300 ports of entry, this is no small task, and CBP should be lauded for the work it has done, and continues to do, in interdicting counterfeit goods. In Fiscal Year 2011, CBP effected nearly 25,000 seizures, valued at nearly \$180 million, on the basis of

intellectual property violations.¹ But while those numbers are impressive, we also know that they account for only a small percentage of the overall volume of counterfeits entering the country. Counterfeit goods of all types remain widely-available, and more can and must be done to keep such products out of the consumer marketplace.

CBP's trade mission is two-fold though; they're tasked not only with stopping the flow of illegitimate trade – whether counterfeits, unsafe products, narcotics, weapons and the like – but also with ensuring that legitimate goods enter the market in a timely fashion, and without unnecessary delays. Customs' missions of trade facilitation and IP enforcement however need not be at odds with one another. And until relatively recently, collaboration between CBP and their counterparts in the private sector contributed to the accomplishment of both missions. For the past several years however, this cooperative effort between the public and private sectors has suffered, the result of what many rights-holders view as an overly-formalistic, and indeed incorrect, interpretation of federal statutes and regulations by Customs.

The legislation introduced by Representatives Poe and Chabot provides a commonsense approach to restoring the collaborative relationship that previously existed between rights-holders and Customs, by clarifying the authority of CBP personnel to seek, and to receive assistance from experts in the private sector.

Traditional Model of Collaborative Border Enforcement

“Public-Private Partnership” is a phrase that's often heard in discussions regarding intellectual property enforcement, and it's appropriate for a number of reasons. Whether that enforcement is taking place at, within, or beyond the borders of the United States, the anti-counterfeiting and anti-piracy efforts undertaken by law enforcement agencies or by individual trademark and copyright owners often overlap and intersect; and rights-holders and law enforcement have a long history collaboration in seeking to address these offenses which are both civil and criminal in nature. This cooperation is an essential component of an effective IPR enforcement regime, particularly in light of the increasing sophistication of counterfeiting operations, and the growing array of countermeasures that intellectual property owners have adopted to ensure the safety and security of their distribution chains.

Traditionally, one of the most frequent venues for this sort of cooperation involved a request from Customs personnel in determining the authenticity of a shipment of goods presented for inspection at a port, and intended for distribution within the U.S. market. This practice acknowledged a simple fact: the most qualified individuals to make an efficient and accurate determination of whether certain goods were real or fake were the intellectual property owners themselves.

¹ See, Intellectual Property Rights – Fiscal Year 2011 Seizure Statistics. Prepared by CBP Office of International Trade. Available at: http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/ipr_communications/seizure/ipr_seizures_fy2011.ctt/ipr_seizure_fy2011.pdf

Historically, the identification of, and enforcement against, suspected counterfeit shipments entering the country generally followed the process described herein. Upon their arrival at a port of entry, imported goods are presented to US Customs and Border Protection for examination and inspection. Customs regulations authorized officers, “At any time following presentation of the merchandise for Customs examination . . . to provide a sample of the suspect merchandise to the owner of the trademark or trade name for examination or testing to assist in determining whether the article imported bears an infringing trademark or trade name.”² On the basis of that authority, if a CBP officer had questions regarding the authenticity of those goods, they would routinely query their Recordation Database, find the designated contact for the trademark owner, and provide them with a sample or digital image of the goods. The incorporation of a variety of overt anti-counterfeiting markings on most of our members’ products and packaging generally made authentication by the mark-owners’ in-house experts relatively easy with the images or samples provided; and our members report an average turnaround time of 48 hours or less, from the time that image or sample is received, to respond to CBP’s inquiry. During this same period, CBP was permitted to provide the trademark owner with a variety of information related to the shipment, including the date of the importation, the port of entry, the quantity involved, a description of the merchandise, and the country of origin of the merchandise.³

Cognizant of the harm involved in unnecessarily delaying imports bound for the U.S. market, Federal Regulations have required (both in the past, and currently,) prompt action by CBP in making determinations about shipments’ suitability for entry. Within five days of the goods’ presentation for examination, pursuant to 19 CFR 133.25, CBP is required to either permit their entry, or provide notice to the importer that the goods are being detained for a suspected intellectual property violation. If the officer chooses to detain the goods, such investigation, absent a showing of good cause, is to be concluded within 30 days of the goods’ presentation for inspection. Following the issuance of a notice of detention, the importer is permitted to present evidence that the importation of the goods is, in fact, not prohibited or can be remedied by action prior to the release of the goods.⁴ During this period of detention, the trademark owner whose rights are implicated, can likewise provide evidence to demonstrate that the importation of the goods in question would constitute an IP violation, and that CBP should therefore seize the shipment.

At the conclusion of its investigation, CBP would either release the goods into the country (if the evidence available was insufficient to establish an IP violation), or seize the goods (if the evidence was sufficient to establish a violation). Following a seizure of articles bearing a counterfeit mark, CBP was required to provide to the owner of the

² 19 CFR 133.25(c) . Similar authority, with respect to imports violating copyrights is set forth in 19 CFR 133.43.

³ 19 CFR 133.25(b). Disclosure of that same information to the trademark owner is not permissible, but required, by the regulation within 30 days of the issuance of a notice of detention.

⁴ See, 19 CFR 133.25(a), 133.22(c), 133.23(d).

mark both the information for which disclosure was required following detention of the goods, as well as the name and address of the manufacturer, the exporter, and the importer.⁵

The efficiency with which CBP can conclusively determine the authenticity of the goods which have been presented for inspection has a direct correlation to the speed in which legitimate goods will reach consumers; any delay in making those determinations increases the costs to both manufacturers and consumers. Likewise, the accuracy of the determinations made carry similar consequences. The unnecessary detention or seizure of legitimate goods mistakenly believed to be counterfeit, or the entry into the market of counterfeit goods mistakenly believed to be legitimate exposes manufacturers and consumers to additional harms.

The volume of imports, both legitimate and illegitimate, coupled with the thousands upon thousands of registered trademarks found on those goods, and the increasing sophistication of counterfeiters' in their creation of convincing-looking fakes, presents a unique problem to CBP officers in the field. How can any individual, or team of individuals, develop and maintain the necessary expertise required to quickly and accurately determine whether such a broad range of goods are, or aren't, genuine? The simple answer is that they can't. The recognition of that fact underscored the traditional cooperation between Customs officers and private-sector rights-holders.

Current Model of Border Enforcement

Regrettably, several years ago, U.S. Customs and Border Protection ("CBP") announced a shift in policy that has served only to frustrate the sort of collaboration that was once the norm. The agency advised its personnel that, even when made for the limited purpose of determining whether goods intended for import were authentic or counterfeit, the disclosure of certain information regarding that shipment was impermissible. The rationale offered by CBP is that such disclosures would constitute a violation of 18 U.S.C. 1905 ("the Trade Secrets Act"), and Customs Regulations concerning the procedures for providing information and samples related to suspected IP violations. Though CBP points to the issuance of Customs Directive 2310-008A⁶ (hereafter, "the Directive"), dated April 7, 2000, as the date of the formal change in policy, IACC members did not report any actual change in practice during their interactions with CBP officers until several years later. By 2007 – 2008 however, we began to hear more frequently from rights-holders regarding the reluctance of CBP officers to share information with them regarding shipments of suspected counterfeits.

The Directive includes language in Section 5.2.3, which requires Customs officers to "remove or obliterate any information indicating the name and/or address of the manufacturer, exporter, and/or importer, including all bar codes or other identifying

⁵ 19 CFR 133.21(c).

⁶ See, U.S. Customs & Border Protection - Customs Directive 2310-008A.

marks,” prior to the release of any sample to a trademark holder. The basis for the Directive appears to be tied to an overly-formalistic reading of the relevant regulatory code sections related to the sharing of information regarding, and samples of, the suspect shipment. The apparent conflict, as seen by CBP, is between CBP’s officers’ authority to seek assistance by providing a physical sample (or a digital image of those goods) to a trademark owner from the date the goods are presented for inspection⁷, and the timing authorized for the disclosure of other information related to the shipment.⁸ CBP has stated that if various markings, distribution codes or the like might reveal to the trademark owner any information that would otherwise only be made available after a determination that the goods should be seized, any such markings must be removed or redacted before providing the samples to the rights-holder. It is worth noting however, that no such language mandating the removal or redaction of information is included in the relevant regulatory code sections.⁹ Contrary to CBP’s position, Customs regulations provide no basis whatsoever for the proposition that samples of the suspect goods should be provided to the rights-holder in any condition other than that in which they were presented for inspection.

CBP argues, by extension, that because it believes it has no specific authorization to reveal that information relating to the identity of the manufacturer, exporter, or importer, pre-seizure – and on the assumption that bar codes, or other information included on the product or packaging would reveal that information to the trademark owners – that providing unredacted samples or images of the goods would constitute a violation of the Trade Secrets Act. That statute prohibits the disclosure by a federal employee of confidential information to a third party which is not otherwise authorized by law. Violations of the statute are punishable by no more than one year imprisonment, and removal from office or employment.¹⁰

Though CBP’s concern for the welfare of its employees is understandable, it is likewise clear that the conduct in question – the provision of samples to rights-holders by CBP officers, for the limited purpose of seeking assistance in fulfilling its IP enforcement mission – is not the sort of conduct that Congress intended to criminalize by its enactment of the Trade Secrets Act. Furthermore, such conduct should not be precluded by the Act, because the bar codes and other such information included on the products and packaging in question are not “trade secrets”. Were the goods to be released into the U.S., those same codes will be plainly visible to the trademark owner, and to any consumer who finds the product on a store shelf. The markings themselves are in no way secret or confidential; the only arguable secret inherent in the markings is

⁷ See 19 CFR 133.25(c).

⁸ Compare 19 CFR 133.25(b), permitting the disclosure, from the time of presentation, of the date of importation, the port of entry, a description of the merchandise, the quantity involved, and the country of origin of the merchandise; and 19 CFR 133.21(c), authorizing the disclosure of the above information, as well as the identity of the manufacturer, exporter, and importer, subsequent to a seizure.

⁹ Compare, Customs Directive 2310-008A, 19 CFR 133.21 and 19 CFR 133.25.

¹⁰ See, 18 U.S.C. 1905.

the information encoded by the markings. But even if that assertion is accepted, the disclosure of an unredacted sample or image to the trademark owner would not run afoul of the Act. If the suspect goods in question were, in fact, legitimate goods, then the codes and information in question were applied by, and owned by the rights-holder to whom they would be disclosed; and the Trade Secrets Act does not prohibit the disclosure of a trade secret to its owner. If the goods were counterfeit however, any such codes included on the goods will be indecipherable by the trademark owner; they will not reveal any information regarding the identity of the manufacturer, exporter, or importer, but simply reveal the fact that the goods are not genuine.

Though drafted exceptionally broadly¹¹, courts and federal agencies have generally construed the Trade Secrets Act narrowly.¹² CBP's adopted policies though take a very expansive view of the range of conduct that is prohibited by the Act. Not surprisingly, following the implementation of Directive 2310-008A, , the samples provided to rights-holders by CBP officers seeking assistance in determining whether shipments presented for inspection were authentic or counterfeit were often so heavily redacted that they were rendered entirely useless for that purpose. This result was perhaps inevitable given the potential consequences facing an officer who even inadvertently ran afoul of the Trade Secrets Act.

In addition, following the communication of the Directive to port personnel, IACC members began reporting not only the redaction of information from samples provided, but in many cases, a significant decrease in the overall number of requests for assistance with such determinations, received from CBP personnel. Presumably, that decrease is the result of the desire of CBP officers to avoid improperly sharing information regarding a shipment, an understandable frustration at the frequent inability of rights-holders to provide requested assistance in verifying goods' authenticity on the basis of highly-redacted samples, or both.

Regardless of the reasons however, the logical conclusion is that in the absence of robust cooperation between rights-holders and law enforcement, a significantly greater volume of counterfeit goods will continue to reach the U.S. consumer market, and the harm inflicted upon legitimate businesses and consumers will continue to grow. CBP's interpretation of the statute serves no legitimate interest in protecting confidential information, but rather frustrates the agencies' own efforts to interdict counterfeit goods entering the United States.

¹¹ One court has stated that the Act, "had a bizarre effect of criminalizing and imposing prison terms for almost every communication by government employees of information they obtain in the scope of employment." *See United States v. Wallington*, 889 F. 2d 573, 576 (5th Cir. 1989).

¹² *See, e.g.*, "Business Confidentiality After Chrysler." United States Department of Justice, FOIA Update, Vol. 1, No. 2 (1980), describing the policy of the Department of Justice's Criminal Division to not prosecute government employees for violations of 18 U.S.C. 1905, if the employee was acting in good faith to comply with a request made pursuant to the Freedom of Information Act.

Recent Developments

For several years, rights-holders have urged U.S. Customs & Border Protection to reconsider their position concerning the scope of the Trade Secrets Act, and its implications for working cooperatively with rights-holders to combat the importation of counterfeit goods into the United States. CBP has consistently maintained that its hands are tied by the constraints placed upon it by the Trade Secrets Act, that its regulations and directives correctly apply those constraints to the official actions undertaken by CBP personnel. In short, CBP has made clear that absent a change to federal law – and more directly, to the Trade Secrets Act – it has no intention of altering its existing policies with regard to making available samples or images of goods suspected of violating intellectual property rights.

Late last year, Congress sought to address these very issues with its enactment of provisions pursuant in the National Defense Authorization Act, authorizing the Secretary of the 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 for purposes of determining whether the products are prohibited from importation pursuant to such section,” in cases where CBP suspects the goods of being imported in violation of trademark law.¹³ Since the enactment of that law however, CBP continues to refuse to provide such information and unredacted samples, purportedly due to conflicts between that law and existing regulations. Furthermore, because the Defense Authorization provisions are scheduled to sunset upon the enactment of forthcoming Customs Reauthorization legislation, Congressional action is necessary to ensure that CBP will not revert to its current policy in the future.

H.R. 4216, the Foreign Counterfeit Prevention Act, provides an unequivocal mandate to allow CBP officers to resume the sort of cooperation with rights-holders that was long the norm in anti-counterfeiting efforts. It clarifies that CBP’s current interpretation and application of the Trade Secrets Act is not in line with the Congressional intent of that statute. H.R. 4216 also provides a permanent, and more complete resolution to the problem, clarifying that CBP has the authority to share information, not only in cases involving trademark rights, but also those implicating copyrights, or involving the illegal importation of circumvention devices (the latter of which is discussed in more detail below). And perhaps most of all, it restores a measure of commonsense in our efforts to combat the threats posed to American businesses and consumers by the trafficking of counterfeit goods.

Information-Sharing With Regard to Circumvention Devices

In addition to addressing the above issues related to the illegal importation of counterfeit and pirated products into the United States, H.R. 4216 likewise seeks to

¹³ See, National Defense Authorization Act for Fiscal Year 2012, Public Law No: 112-81, at Section 818(g).

remedy another purported defect in the statutory authority governing CBP's ability to share information with some rights-holders. Title 17, Section 1201 of the U.S. Code prohibits the importation of any device that "is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work," that "has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work," or "is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing a technological measure that effectively controls access to a work," protected under the Copyright Act. Technological protection measures have been used widely, and for many years, by producers of a variety of copyrighted goods, perhaps most notably within the entertainment software sector; these TPM's serve as a sort of digital lock, preventing unauthorized access to the work. Circumvention devices, in turn, act much like a digital lock-pick, permitting an individual in possession of an unlicensed, or unauthorized pirated copy of the work to bypass the TPM. The law in this regard is clear, and to their credit, CBP actively enforces these provisions, seizing large numbers of illegal circumvention devices each year.

As noted above, under current federal law, following the seizure of goods intended for importation into the United States for a violation of a copyright or trademark violation, CBP is required to disclose to the owner of the intellectual property right (that was the basis for the seizure), a range of information related to the seizure.¹⁴ The rights-holder is provided several data points including, among others, the date of importation, the port at which the goods were seized, a description of the goods and the quantity seized, as well as information related to the manufacturer, exporter, and importer of the goods. This information has proven invaluable to rights-holders in working with foreign law enforcement and customs officials in the country where the goods originated, in their efforts to cut off the source of the illicit goods. The intelligence gained from these disclosures may also provide insights into the distribution channels used by counterfeiters, which in turn can assist the rights-holder in improving their brand protection efforts, and to help law enforcement here in the U.S. to better target their own efforts.

However, presumably due to a simple legislative oversight, when Congress enacted Section 1201; it failed to include provisions allowing for a comparable disclosure of data to those parties harmed by the importation of circumvention devices. CBP has indicated that absent the explicit statutory authority to do so, it is prohibited from sharing the same data that are provided to other IP owners whose rights are implicated by a seizure. The entertainment software industry is disproportionately harmed by this current

¹⁴ See 19 CFR 133.21(c) and 19 CFR 133.42(d).

policy, a consequence of the method of distribution of pirated versions of their products. Though the industry has seen a pronounced shift towards the online piracy of their goods, entertainment software downloaded from the internet is generally unusable unless the end-user is able to obtain an illegal circumvention device in order to bypass the software's built-in technological protection measures. The inability of rights-holders to obtain information related to CBP's seizures of these devices prevents those injured parties from engaging in the sort of follow-up investigation and enforcement efforts that are readily available to other trademark and copyright owners.

As with the case of pre-seizure disclosure in the context of suspected counterfeits, CBP's current policy with regard to post-seizure sharing of information related to the illegal importation of circumvention devices serves only to hinder the effective provision of assistance by rights-holders. Such disclosures, which H.R. 4216 seeks to grant CBP explicit authority to make, would allow those parties to address the source of the problems overseas, rather than simply relying on CBP and other law enforcement agencies in the U.S. to take action here, on a piecemeal basis. Accordingly, we fully support this Congressional action to empower Customs and rights-holders to effectively collaborate with one another in addressing this threat to American innovation.

Conclusion

Over the past few decades, counterfeiting and piracy have become significant problems for American manufacturers and innovators, and they continue to threaten the vitality of the U.S. economy, and the health and safety of American citizens. The threats posed by intellectual property theft are too great for government or industry to solve on their own; they require the concerted, coordinated action of both. And while we continue to seek newer and more creative ways to address these problems, we also must not discount those tools that have worked well in the past. The International AntiCounterfeiting Coalition fully supports the Foreign Counterfeit Prevention Act, and we look forward to working with the Committee to advance this important legislation.