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# PARADIGM SHIFT IN ANTI-COUNTERFEITING STRATEGIES: FOCUS ON OCEAN TRANSPORTATION INTERMEDIARIES

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**The Paradigm Shift.** There is a definite shift in focus onto transportation intermediaries by brand owners, the victims of counterfeiting schemes. On the air courier side, this focus has resulted in Department of Justice indictments of large courier companies for distributing controlled substances and prescription drugs for illegal Internet pharmacies. However, ocean transportation intermediaries (OTIs) and non-vessel operating common carriers (NVOCCs) also face intense scrutiny.

The International Anti-Counterfeiting Coalition (IACC) filed statements at the Federal Maritime Commission (FMC) stating: "Many of the IACC's trademark and copyright owner members have experienced a large and growing incidence of counterfeit and/or pirated shipments being imported into the U.S. that, upon investigation, are found to have been originated with the assistance of OTIs in the United States." (Rulemaking Docket 13-05, Comments on Ocean Transportation Intermediary Regulation Revisions, August 26, 2013). The Center for Anti-Counterfeiting and Product Protection (A-CAPP) at Michigan State University published a relevant monograph ("Charting the Course: The Roles and Responsibilities of Ocean-going Transportation Intermediaries in the Distribution of Counterfeit goods," June 2015) reaching the same conclusions – that freight forwarders and NVOCCs are unwittingly, willfully or negligently involved in the distribution of counterfeit goods in the U.S. and globally. Civil and criminal cases are also beginning to show up on federal court calendars with more frequency.

While the FMC, the agency that regulates OTIs, has yet to fully embrace an enforcement mode on NVOCCs with respect to counterfeiting, Chairman Mario Cordero, before the U.S. House Subcommittee on Coast Guard and Maritime Transportation on February 25, 2015, made the following ominous statement:

The FMC is also a partner with the National Intellectual Property Rights Coordination Center, a Department of Homeland Security lead partnership comprised of 21 federal and international agencies targeting crimes related to intellectual property and trade. Counterfeit goods can cause serious, life-threatening consequences to American consumers, and the Commission is proud to play a role in attempting to combat these issues with our partner agencies.

Given the magnitude of counterfeit problems, which are only increasing in the U.S., it is reasonable to conclude that brand owners, as well as law enforcement agencies, will more closely scrutinize OTIs and take more aggressive legal actions against them, at both the civil and criminal levels. U.S. Homeland Security reported

23,140 seizures for fiscal year 2014, with a manufacturer's suggested retail price (MSRP) exceeding \$1.2 billion, had the goods been genuine. By MSRP value, the reported targets of counterfeits seized were watches/jewelry (31 percent), handbags/wallets (28 percent), consumer electronics/parts (13 percent), wearing apparel/accessories (9 percent), pharmaceuticals/personal care (6 percent), footwear (4 percent), computer accessories (2 percent), optical media (2 percent), labels/tags (1 percent), toys (less than 1 percent) and all other commodities (3 percent). These statistics represent just the tip of the iceberg, since most shipments of counterfeit goods go undetected.

**The NVOCC Footprint in Counterfeiting.** Both the IACC comments to the FMC and the A-CAPP study describe the corporate theft scheme that results in OTI distribution of counterfeit goods in the U.S.:

1. Foreign counterfeiters unlawfully obtain historical shipping/commercial documentation from a legitimate foreign supplier that ships product(s) to a legitimate U.S. importer.
2. The counterfeiters falsify commercial and shipping documentation so it appears similar to the transactions and product(s) shipped previously. They provide this erroneous information to OTIs in order to book the cargo and to officials in both the country of origin and at U.S. Customs to effect the shipment of the counterfeit goods into the United States. Complete details for all import shipments have to be reported electronically to U.S. Customs and Border Protection (CBP) on the Automated Manifest System (AMS) by an NVOCC at least 24 hours prior to loading the shipment on a vessel, and an Internal Transaction Number from CBP must be generated before an ocean carrier can accept the cargo for loading. The government database recognizes the familiar patterns of the known manufacturer, commodities to be shipped, and consignee of those commodities and gives the green light for loading of the goods. The false information is input into the AMS using stolen credentials obtained through identity theft.
3. The goods shipped are of course not those on the commercial and shipping documentation but are counterfeit goods misdescribed to appear to be legitimate, and the consignees to receive the goods are not those included in the bill of lading issued by the NVOCC.
4. In such cases, the U.S. customs broker usually is retained by the foreign-domiciled NVOCC or its U.S. agent, and the OTI is hired by the counterfeiters on condition that it will not have any direct contact with the importer on the documentation since this is not the actual recipient of the shipment. The consignee on the OTI bill of lading has no idea that this shipment and entry are being made in its name, or that its corporate identity has been stolen. The counterfeiter provides the OTI a fraudulent power of attorney (POA). The OTI provides this false POA to the customs broker with instructions not to contact the importer of record. The goods are then picked up by parties not noted on the NVOCC's bill of lading.

**Investigative Tools and Judicial Solutions.** The A-CAPP study identified vicarious and contributory negligence as possible approaches to pursue secondary intellectual property rights infringement against OTIs and ocean carriers where a party can be held liable for damages flowing from trademark, copyright or patent infringement, even if not directly infringing on the brand owner's rights. Additionally, the IACC in its comments to the FMC noted, "It is well recognized that counterfeiters and copyright pirates regularly hide or secret documentation and evidence related to size and profit garnered from their infringing behavior." The IACC noted that for those reasons, "both the Copyright Act and Lanham Act provide for statutory damages, rather than only actual damages, in counterfeiting and pirating cases." This latter approach raises the damages possibility considerably since statutory damages, as opposed to actual damages, pursuant to those citations provide for "not less than \$1,000 or more than \$200,000 per counterfeit mark, per type of goods or services sold, offered for sale or distributed, as the court considers just." Further, if the court finds that the use of the counterfeit mark was willful, then the damages ceiling is raised to \$2 million per counterfeit mark per type of goods or services sold, offered for sale or distributed. The willful element comes into play at this point, as does the issue as to what constitutes "willful."

The FMC proceeding pointed out that importers learn about a shipment of counterfeit or infringing goods being imported into the U.S. only after the shipment is seized or detained by CBP. Once a seizure or detention has occurred, further distribution of that specific shipment in the U.S. is prevented. It can thereby be argued that an intellectual property owner does not suffer any actual damages from the specific shipment that was stopped. The FMC comments also point out that most counterfeit or infringing goods are imported into the U.S. through a repetitious series of shipments using the same stolen identity or other fraudulent scheme until a single counterfeit shipment is finally identified and stopped by CBP. When CBP seizes counterfeit goods and notifies the brand

owner of the seizure, the counterfeiters also are made aware of the seizure and tend to disappear. The OTIs, however, are available and may be inclined to divert attention from themselves and may be able to identify the counterfeiting parties with whom they have been dealing, or alternatively, they may themselves be liable pursuant to the legal theories identified above. This process is triggered when the brand owner receives a notice from U.S. CBP that it has seized goods that are subject to forfeiture pursuant to Title 19, USC, section 1526(e) and Title 19, CFR, section 133 because the merchandise is a counterfeit/unlicensed version of the brand owner's trademark-protected products that are registered with the U.S. government. It is clearly in the interest of this brand owner, among other things, to review the notice and take steps to identify further the scope of the scheme, and perhaps the players involved.

**The Import Database Resource.** To quantify the depth of the scheme for investigative purposes, and potentially for litigation as the OTI cases develop, the shipping history of the specific counterfeiting scheme is desirable and ascertainable from existing databases at the housebill level. "Housebill" is the term used for bills of lading issued by the NVOCC to these individual shippers (as opposed to "master bills," which describe the bill of lading issued by the ocean carrier). When U.S. CBP issues a Notice of Seizure for a shipment it suspects is counterfeit, where the shipment was accomplished by an NVOCC, key elements of information on that notice may be sufficient for some data providers to retrieve all prior shipments with identical or similar information at the housebill level. These data providers specialize in commercializing CBP data that is obtainable through the Freedom of Information Act. Highly effective providers such as Miami-based [Datamyne](#) even offer search fields that can separate house and master bills of lading data.

The notices do not usually list container numbers, but they do reveal the import date at a particular port and usually the false identities provided for the shipper/manufacturer and ultimate consignee on the NVOCC bill of lading. These data fields provide sufficient information to retrieve other similar import transactions at the NVOCC bill of lading level. In fact, this process often provides the history of the counterfeiting scheme used by a particular NVOCC. While it does not provide the identity of the actual shipper or consignee of the counterfeit goods, it does quantify the counterfeiting activity using a specific scam, and may be useful in litigation if it arises, or in further investigative efforts.

**Conclusion.** OTIs must not ignore this paradigm shift. With this new focus on OTIs and their role in the counterfeiting arena, responsible OTIs should become more aggressive in establishing policies and practices to minimize risk. In its monograph, A-CAPP advocates for the adoption of a socially responsible "Know Your Customer" solution, similar to the Transportation Security Administration's "Known Shipper" program for U.S. exporters. Since corporate identity theft is at the heart of the counterfeiting model, especially in China and Hong Kong where the vast majority of counterfeit shipments originate, such a program could strike a significant blow against counterfeiting. OTIs, already saddled with onerous regulations, may be reluctant to implement such programs but should, at a minimum, review policies for cargo originating in China and Hong Kong to minimize new risks resulting from this added scrutiny.

Brand owners, on the other hand, need to structure anti-counterfeiting strategies that take into consideration the supply chain processes described herein. At the very least, when receiving a notice from U.S. CBP of a seizure of suspected counterfeit goods, part of the anti-counterfeiting process should be to attempt to determine the history of the particular scheme, identify the players to the extent possible, and to consider investigative and/or litigation options. The elements of this new environment should be integrated into the brand owner's current anti-counterfeiting strategies.

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