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Partnering With The Feds For IP Enforcement: Part 1

Law360, New York (January 10, 2012, 1:06 PM ET) -- *Together, we are signaling that a new era of cooperation, engagement and vigilance has begun. And we are sending an unequivocal message to criminals profiting from the ingenuity of others or endangering the safety of our citizens by selling defective or dangerous counterfeit goods. We will find you. We will stop you. And you will be punished.*
--U.S. Attorney General Eric Holder

Introduction

Despite the best efforts by private litigants, undertaken at their own expense, online piracy and counterfeiting of goods are still on the rise.^[1] Based on 2005 estimates, counterfeiting costs the U.S. economy an estimated \$200 to \$250 billion per year, and according to the FBI, Interpol and the World Customs Organization, approximately 5 percent to 7 percent of world trade (\$512 billion) is in counterfeit goods. Until recently, federal law enforcement did not vigorously enforce criminal statutes covering such conduct, leaving private litigants to combat these problems on their own.

One obvious reason why intellectual property crimes are on the rise is the paucity of criminal prosecutions in a highly lucrative area of criminal enterprise. Government data shows that counterfeiters selling luxury goods can realize staggering profits, ranging from 300 percent to over 3,000 percent.^[2] Indeed, some estimates put counterfeiter profit margins ahead of drug traffickers,^[3] while drug trafficking convictions carry substantially higher penalties.^[4] So, without some new form of deterrent, counterfeiting of all goods is sure to expand. This explains the tough talk from the nation's highest-ranking law enforcement official. But it's not just talk.

A quick survey of news reports reveals that federal agencies, including the U.S. Department of Justice, FBI and Immigration and Customs Enforcement, recently have begun to increase their efforts to investigate and prosecute IP violators.^[5] From the IP holder's perspective, the stepped-up enforcement raises the question: Is it better to follow the traditional path and "go it alone" by pursuing civil remedies or actively work with law enforcement to (perhaps) protect products and brands in a more lasting and cost efficient way.

This article, along with its successor articles, will highlight the government's increased enforcement efforts and discuss how best to partner with criminal investigative agencies and prosecutors to assist in criminal prosecutions in appropriate cases.

Shifting Perceptions of Counterfeiting

Once regarded as "victimless" crimes that mainly consisted of selling cheap knockoff sunglasses and watches, counterfeiting is increasingly viewed as a serious threat to the public health.[6] For example, the U.S. Food and Drug Administration estimates that counterfeit drugs account for 10 percent of all pharmaceuticals sold in the world, and some estimates run as high as 15 percent of the world market. Drugs in developing countries are a staggering 50 percent to 60 percent counterfeit.[7] But the danger posed to the public health by counterfeits is not limited to pharmaceuticals alone. Counterfeit infant formula, toothpaste, automobile parts, batteries and electronic products are commonly seized in U.S. ports.

Counterfeit rechargeable batteries for handheld devices have reportedly overheated and exploded, in some cases causing harm to the consumer. And in a recent Gallup survey, 64 percent of counterfeit electrical goods are purchased at legitimate shops and retailers, and consumers throughout the United States have reported cases where extension cords, fake fans, coffee pots and lamps have malfunctioned, causing harm.[8] Perhaps most alarmingly, counterfeit goods have even infiltrated military supply chains.[9] A 2010 study by the U.S. Commerce Department estimated that counterfeit aircraft parts were "leading to a 5 to 15 percent annual decrease in weapons systems reliability." [10]

Counterfeiting also presents a serious threat to the economic well-being of American innovators across a variety of industries. IP holders suffer lost sales, downward pressure on prices, and lost profits. In addition, IP holders incur costs associated with anti-counterfeiting and anti-piracy efforts, and suffer damage to brand equity and consumer confidence when consumers purchase substandard counterfeit products while believing they are purchasing genuine articles. This loss of brand equity and consumer confidence can lead to lost sales in the future.

Consequently, federal law enforcement agencies have begun their concerted response. On Oct. 13, 2008, Congress enacted the Enforcement of Intellectual Property Rights Act of 2008. This legislation created a new "IP czar" position, known by the formal title of U.S. Intellectual Property Enforcement Coordinator.

Victoria Espinel, the current IP czar, is charged with harmonizing the efforts of the U.S. government agencies that have a stake in intellectual property enforcement, including the U.S. Departments of Agriculture, Commerce, Health and Human Services, Homeland Security, Justice and State, the Office of the U.S. Trade Representative, and the U.S. Copyright Office.[11] She is also responsible for encouraging international cooperation between the U.S. and other nations, including nations like China, which is included on the "Notorious Market List."

In addition, Attorney General Holder reestablished the Justice Department's Task Force on Intellectual Property, which is chaired by the deputy attorney general, and focuses on coordinating among international law enforcement. Holder also deployed two federal prosecutors to manage IP protection efforts in Southeast Asia and Eastern Europe. These political efforts are now beginning to show real results:

- During fiscal year 2009-2010, ICE increased the number of its criminal intellectual property investigations more than 41 percent, and increased its arrests more than 37 percent. DHS intellectual property seizures were up more than 34 percent, and FBI intellectual property investigations opened were up more than 44 percent.[12]
- In 2009, U.S. Customs and Border Protection seized more than \$260 million worth of counterfeit goods at U.S. ports of entry, with counterfeit pharmaceuticals topping all categories of products seized.[13]
- In 2010, Customs and Border Patrol and ICE intellectual property seizures of consumer safety and critical technology increased by 97 percent, to approximately \$145,605,100.[14]
- In June 2010, during Operation Mercury II, the U.S. worked with the WCO and Interpol to seize over 1,300 parcels containing a wide variety of illegal pharmaceuticals, including psychiatric and heart medications.
- Since June 2010, the U.S. has led and participated in other international law enforcement sweeps in coordination with the WCO, Interpol, and other international bodies, including Operation Pangea III, which targeted online sale of counterfeit and illegal medicines across 45 countries. The operation resulted in arrests worldwide and seizures of thousands of potentially harmful drugs.[15]

All evidence points to future increases in these enforcement efforts.[16]

Cause to Reevaluate the Current Strategy?

Until now, civil remedies have been important tools for enforcing IP rights, and in many cases they will continue to provide adequate relief. But, given the shifting attitudes in Washington and the increased resources being devoted by the federal government to IP prosecutions, it may be time for IP holders to consider referring some cases to the National Intellectual Property Rights Coordination Center or to the appropriate U.S. Attorney's Office.

Such referrals carry some potentially significant advantages. First, federal law enforcement officials may utilize investigative techniques that are not available to private litigants like wiretaps and other electronic surveillance,[17] and undercover operations. These techniques may aid significantly in locating counterfeiters and breaking up their networks.[18]

Second, federal law enforcement can more easily target the assets of individual wrongdoers. In private litigations, individual wrongdoers are often shielded by the corporate veils of their shell companies; but prosecutors can circumvent these corporate protections altogether to achieve a greater deterrent effect.

Third, federal investigators have the ability to work with their international counterparts to aid in investigations and to avoid many of the legal and ethical pitfalls that private litigants encounter when gathering evidence and conducting investigations on foreign soil.[19]

Fourth, prosecution by federal agencies is likely to have a greater and broader deterrent effect than private litigations against each counterfeiter individually, especially given the increasing criminal penalties associated with IP crimes.[20]

Finally, federal agencies have the full resources of the government at their disposal, and IP holders may be able to conserve their own resources while capitalizing on the government's desire to preserve domestic IP rights and the jobs that go along with them.

Of course, law enforcement's increased focus alone will not protect your company's IP rights, and not every infringement will result in a criminal prosecution. And despite the sudden interest in prosecuting IP crimes, IP holders cannot sit back and wait for federal investigators to ferret out wrongdoing and do all the heavy lifting on its own.

Rather, to form an effective strategy, IP holders must pinpoint appropriate cases and individuals, gather sufficient evidence to establish criminal conduct, and identify which agencies and prosecutors will be most receptive to the IP holders' concerns. Indeed, because law enforcement agents are not all-knowing and resources are limited, federal agencies and prosecutors are actively looking to partner with IP holders to identify potential targets for prosecution.[21]

Prosecutors and investigators will rely on IP holders to explain, for example, the product and the relevant market, the distribution channels, how the counterfeit product differs from the genuine article, how to detect a counterfeit product, and how the introduction of counterfeit products into the stream of commerce impacts the innovator and harms or potentially harms the public.

Thus, developing and maintaining an interactive, trusting relationship with law enforcement agencies and prosecutors can help IP holders pursue criminal prosecution in appropriate circumstances. Part of developing that relationship is understanding law enforcement goals and priorities, knowing which cases will (and which will not) draw interest from prosecutors and agents, understanding how prosecutors handle cases and the types and quantum of evidence they look for, and knowing who to call.

Absent cooperation from the IP holder, law enforcement will be hard-pressed to independently develop the necessary evidence or an appreciation of the harm the counterfeit product presents in a timely fashion. Critics of the cooperative approach will surely point to law enforcement's flawed past efforts (or lack thereof) as evidence that, despite the statistics, IP holders are better off going it alone.

These topics will be explored further in future articles. But for now, it would behoove the savvy IP holder to examine its current strategy for protecting its intellectual property and consider whether a partnership with law enforcement makes sense. After all, if the promising prosecution statistics are indicative of a sea change, it would be better to get out in front of the government's efforts rather than play catch-up after the fact.

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[1] U.S. Chamber of Com., What Are Piracy and Counterfeiting Costing the American Economy?, 1, 2 (2005), <http://www.uschamber.com/ncf/initiatives/counterfeiting.htm>; see Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181 § 1(a)(2) ("Findings"), 120 Stat. 285, 285 (2006).

[2] U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement, Intellectual Property Rights: Fiscal Year 2010 Seizure Statistics — Final Report, 9 (January 2011), <http://www.ice.gov/doclib/news/releases/2011/110316washington.pdf>.

[3] See Piracy and Counterfeiting Costing the American Economy, *supra* note 1, at 13 (estimating that a cocaine dealer realizes 100-percent profit on the sale of 1 kilo of cocaine, while a counterfeiter of Microsoft Office realizes a 900-percent profit).

[4] See Victoria Espinel, Concrete Steps Congress Can Take to Protect America's Intellectual Property (March 15, 2011).

Because of the high profit margin and shorter prison sentence for intellectual property crimes compared to other offenses, piracy and counterfeiting are a strong lure to organized criminal enterprises, which can use infringement as a revenue source to fund their other unlawful activities. One of the most brutal drug cartels in the world — Mexico-based La Familia — manufacturers and sells counterfeit software, generating more than \$2.4 million in profits each day. The Administration has recommended increased penalties for intellectual property crimes committed by organized criminal enterprises and wiretap authority for copyright and trademark offenses, which will enhance efforts to fight organized crime and bring their leaders to justice.

[5] See, e.g., Azam Ahmed, Ex-Citadel Employee Charged With Stealing Trade Secrets, NY Times Dealbook, Oct. 13, 2011, <http://dealbook.nytimes.com/2011/10/13/ex-citadel-employee-charged-with-stealing-trade-secrets/> (trade secrets); U.S. Immigration and Customs Enforcement, press release, Sept. 9, 2011, Virginia woman sentenced to 5 years in prison for importing and selling counterfeit Cisco computer equipment, <http://www.ice.gov/news/releases/1109/110909washingtondc3.htm>; Melissa Lipman, 2nd NinjaVideo Founder Cops To Copyright Charges, Law360, http://www.law360.com/whitecollar/articles/274740?nl_pk=3298d91c-147b-41c4-8dd1-b12e8bb787d8&utm_source=newsletter&utm_medium=email&utm_campaign=whitecollar (illegal downloading of copyrighted movies and television shows); Department of Justice, Federal Courts Order Seizure of 82 Website Domains Involved in Selling Counterfeit Goods as Part of DOJ and ICE Cyber Monday Crackdown (Nov. 29, 2010), <http://www.justice.gov/opa/pr/2010/November/10-ag-1355.html>.

[6] In addition to counterfeit products themselves posing a threat to public safety, there is evidence that profits from the sale of knock offs have been funneled to foreign terrorist groups. In his testimony to the U.S. House of Representatives Committee on International Relations, Secretary General of Interpol Ronald K. Noble, provided specific examples of links between IP crimes and terrorist organizations, such as Al-Qaeda, Hezbollah, Chechen separatists, North African radical fundamentalists, and known terrorist groups in Kosovo and Northern Ireland. See “The Links Between Intellectual Property Crime and Terrorist Financing,” testimony of Ronald K. Noble, Secretary General of Interpol, to House of Representatives Committee on International Relations, Washington, D.C., 108th Congress, July 16, 2003. Additionally, there is evidence that the 1993 World Trade Center bombing was partially financed through the sale of counterfeit goods, particularly fake Nike T-shirts sold from a store on Broadway. Matthew Benjamin, “A World of Fakes,” U.S. News and World Report, July 14, 2003.

[7] Robert Cockburn, Paul N. Newton, E. Kyeremateng Agyarko, Dora Akunyili & Nicholas J. White, The Global Threat of Counterfeit Drugs: Why Industry and Governments Must Communicate the Dangers, PLoS Medicine (2005), <http://www.plosmedicine.org/article/info%3Adoi%2F10.1371%2Fjournal.pmed.0020100>; see U.S. Chamber of Commerce, *supra* note 1, at 2 (citing U.S. Customs and Border Protection, press release, May 29, 2002, “Fighting the Fakers,” The Engineer, April 16, 2002 and Philip Broussard, “Dangerous Fakes,” World Press Review, January 1999.)

[8] Global Intellectual Property Center, 1-2.

[9] As part of the DOJ’s Operation Network Raider, a Saudi citizen who resided in Sugarland, Texas, was sentenced to 51 months in prison for attempting to sell counterfeit Cisco products, purchased from a Chinese online vendor, to the DOD for use by U.S. Marine Corps personnel operating in Iraq. The counterfeit Cisco products would have been used in a computer network designed to transmit troop movement, relay intelligence and maintain military base security. Office of the U.S. Intellectual Property Enforcement Coordinator, 2011 U.S. Intellectual Property Enforcement Coordinator Joint Strategic Plan, 50 (June 2011), available at http://www.whitehouse.gov/sites/default/files/omb/IPEC/ipec_anniversary_report.pdf.

[10] U.S. Dep’t of Com., Defense Industrial Base Assessment: Counterfeit Electronics, 140 (Jan. 2010), available at http://www.bis.doc.gov/defenseindustrialbaseprograms/osies/defmarketresearchrpts/final_counterfeit_electronics_report.pdf. The Government Accountability Office has reported that the Defense Department discovered in testing that it had procured body armor that was misrepresented as being “Kevlar,” and that a supplier sold the Defense Department a personal computer circuit that it falsely claimed was a \$7,000 circuit that met the specifications of a missile guidance system. Whitehouse Highlights Efforts to Protect Troops from Counterfeit Military Products, <http://whitehouse.senate.gov/newsroom/press/release/?id=6FB6A5EB-634D-414F-BA1A-E76A852AA0BC> (Dec. 2, 2011).

[11] Office of the U.S. Intellectual Property Enforcement Coordinator, 2011 U.S. Intellectual Property Enforcement Coordinator Joint Strategic Plan, 1 (June 2011), available at http://www.whitehouse.gov/sites/default/files/omb/IPEC/ipec_anniversary_report.pdf.

[12] Office of the U.S. Intellectual Property Enforcement Coordinator, at 3. In a statement to the House of Representatives Committee on Oversight and Government Reform, Jason M. Weinstein, highlighted some recent Justice Department successes in IP enforcement:

- Earlier this year, the department obtained its 60th felony conviction arising from Operation Fastlink, one of the largest international law enforcement actions ever taken against online piracy. Operation Fastlink targeted multinational organized criminal networks engaged in large-scale software piracy. In the underlying investigation, the FBI worked with foreign law enforcement to conduct over 120 simultaneous search warrants in 27 states and a dozen foreign countries.
- In September 2009, Edward Mohan II, 46, of Baltimore, pleaded guilty in the Eastern District of Virginia to conspiracy to commit criminal copyright infringement for his role in the internet piracy group known as Rabid Neurosis, or “RNS,” which operated from at least 1999 to 2007. RNS gained notoriety for releasing pirated copies of popular albums on the internet before they were commercially released, and the group prided itself on being untouchable by law enforcement.
- In late 2008, Barry E. Gitarts, 25, of Brooklyn, N.Y., was sentenced to 18 months in prison for his role in operating a server used by the internet music piracy group, Apocalypse Production Crew. Gitarts was the 15th APC member to be convicted of conspiracy to commit criminal copyright infringement.

“Protecting Intellectual Property Rights in a Global Economy: Current Trends and Future Challenges,” statement of Jason M. Weinstein, Deputy Assistant Attorney General Criminal Division, to House of Representatives Committee on Oversight and Government Reform, Washington, D.C., 111th Congress, Dec. 9, 2009.

[13] Global Intellectual Property Center, Getting More Than You Bargained For, 1 (June 2010), http://www.theglobalipcenter.com/sites/default/files/documents/15653_GIPCounterfeit_Fin.pdf.

[14] Id. All seizure values are calculated using manufacturer’s suggested retail price (MSRP). A practical result of the use of MSRP is that damage calculations will almost always be higher than if other measures were used, resulting in higher penalties for convicted defendants.

[15] Id. at 9.

[16] For example, although it’s still winding its way through Congress, the Senate recently passed the Combating Military Counterfeits Act, which increases penalties for those who engage in trafficking of counterfeit military products, including everything from aircraft parts to body armor. Senate Approves Amendment to Combat Counterfeit Products Sold to the Military, (Nov. 29, 2011), <http://coons.senate.gov/newsroom/releases/release/senate-approves-amendment-to-combat-counterfeit-products-sold-to-the-military>.

[17] See Concrete Steps, *supra* note 4.

[18] Id.

[19] For example, the blocking statutes in France and Britain impose penalties upon a French or British national for complying with a foreign court's discovery request." See *In re Anschuetz & Co.*, 754 F. 2d 602, 614 n.29 (5th Cir. 1985). European data and privacy protection laws often require notice to potential targets and may limit the ability of a private litigant to gather and export evidence from abroad. Because of cooperation agreements amongst law enforcement agencies, such statutes would not pose an obstacle to federal investigators. Conversely, a blocking statute might cause considerable trouble for a private IP holder seeking discovery overseas.

[20] See Concrete Steps, *supra* note 4 (recommending stiffer penalties for IP violators).

[21] See, e.g., Dep't of Justice, Reporting Intellectual Property Crime: A Guide for Victims of Counterfeiting, Copyright Infringement, and Theft of Trade Secrets, available at <http://www.justice.gov/criminal/cybercrime/AppC-ReportingGuide.pdf>.

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