

U.S. Customs IP Seizures at Record Highs

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The U.S. government has substantially increased its focus on goods imported into the United States that infringe copyrighted works and trademarks. This article discusses these recent efforts and provides practical advice to avoid—or cope with—a seizure by U.S. authorities.

Point of Entry Seizures by U.S. Customs and Border Patrol

United States Customs and Border Protection (“CBP”), a division of the U.S. Department of Homeland Security, monitors U.S. ports and other entry points and seizes goods bearing or containing counterfeit copyrighted works and/or trademarks. United States copyright law protects original works of authorship. In the United States, copyright law protects a variety of works, including literary works such as books and software; musical works, including sound recordings; dance routines; paintings, sculptures, and other visual arts; and motion pictures and video games. U.S. trademark law protects symbols and words used by businesses to identify their products and services and distinguish them from those of their competitors and accordingly represent the goodwill and reputation of a company’s goods and services. To use any third-party work protected by copyright or trademark law, a manufacturer, supplier, distributor, and/or importer (here, collectively the “manufacturer”) generally must have a license from the rights-owner.

In 2010, CBP substantially increased its copyright and trademark enforcement operations, leading to a 34% increase in seizures over 2009. The average value for an intellectual-property rights (“IPR”) seizure in 2010 was \$9,425, which was a decrease in value from 2009 but was attributable to the 41% increase in the amount of low-value (under \$1,000) IPR seizures. Footwear remains the top commodity seized for the fifth year in a row, accounting for about 24% of the total IPR seizure value, but CBP is also focusing on electronics, apparel, handbags, and watches, which are the next most-seized goods. The number of seizures from Chinese sources increased by 18% in 2010 to 12,200, accounting for 61% of all IPR seizures that year, with seized goods originating from China totaling US\$124.6 million in 2010. CBP has stated that it intends to maintain this IPR focus in 2011. Moreover, it is important to note that CBP has the authority to seize any goods entering the United States, even if the goods are not intended for the U.S. market and the shipment is simply passing through the United States to another country.

Once CBP seizes a product on the basis of a copyright or trademark infringement violation and the manufacturer cannot provide proof of a written license agreement in effect on the date of the seizure, it is often difficult, expensive, and time-consuming to obtain the release of the goods. Assuming that the manufacturer cannot prove that it has a license to copy the movie, game, software, book, etc. or use the trademark, the manufacturer must follow a multi-step process to obtain a release of the goods.

First, the manufacturer must obtain the written permission of the rights-holder, which, if an option, generally requires a settlement payment and may require the removal of the infringing copyrighted materials and/or trademark. Second, once permission is secured, CBP requires the submission of a Petition, establishing the permission from the rights-holder and discussing the appropriate fine, generally a request for mitigation of the fine. The minimum penalty is 2% of the dutiable value of the goods. CBP can take several

months to consider the Petition and issue a decision. Third, if the settlement with the rights-holder requires removal of the infringing materials, the manufacturer then may schedule the remediation with the relevant port, which can take several weeks because a CBP officer must witness the remediation. The owner of the seized goods is responsible for all storage fees associated with the process. Finally, after the goods are “cleaned,” the CBP supervisor will file documents allowing for their release.

Even if a manufacturer decides against remediation and allows CBP to dispose of the seized goods, CBP will nonetheless assess fines and storage fees. Moreover, CBP will likely begin searching for goods from the manufacturer on the assumption that they may contain infringing content, potentially substantially delaying other shipments.

Website Seizures by U.S. Immigration and Customs Enforcement

Recently, seizures of counterfeit or infringing products by U.S. officials have not been limited to CBP’s efforts regarding tangible goods. In November 2010, U.S. Immigration and Customs Enforcement (“ICE”) began seizing the domain names of both U.S.-based and non-U.S.-based websites involved in copyright infringement and the sale of counterfeit goods. ICE, also division of the Department of Homeland Security, carried out the first phase of “Operation In Our Sites” in June 2010 when it seized the domain names of nine websites allegedly offering pirated movies. On November 29, 2010, ICE carried out the second round of Operation In Our Sites by seizing 82 domain names from websites allegedly selling counterfeit goods and dealing in copyright-protected movies and music. In February of this year, prior to the Super Bowl, the most important U.S. sporting event with a television audience of over 44 million households, ICE seized the domain names of numerous websites allegedly offering unauthorized access to streaming video of sporting events. On February 14, ICE seized 18 more domain names in “Operation Broken Hearted.” The last round of seizures focused on websites dealing in counterfeit luxury products, including products bearing the Chanel, Gucci, Louis Vuitton, and Prada brands.

New U.S. Legislation Regarding Online Copyright Infringement

In addition to ICE’s domain-seizure efforts, the U.S. government has increased its attention to combating IP violations through legislation. For example, last year, Senator Leahy (D-VT) introduced the Combating Online Infringement and Counterfeits Act (“COICA”). According to the committee report, the purpose of the legislation is to provide law enforcement with a tailored procedure for targeting the domain names of infringing websites. It allows the government to pursue a civil action against sites “dedicated to infringing activities” and attempts to target the “worst of the worst” sites. In addition, COICA addresses some of the unique aspects of copyright law, such as authorization and fair use, and authorizes action against both U.S.-based registries and non-U.S.-based registries. COICA was unanimously approved by the Senate Judiciary Committee last fall, but did not receive a vote by the full Senate prior to the end of the 111th Congress. Senator Leahy has indicated that he intends to introduce similar legislation in the current Congress, and both the Senate and House Judiciary Committees have held hearings on IP legislation issues in recent months.

Best Practices and Practical Measures

To do business in the United States without coming to the attention of CBP or ICE, Chinese manufacturers, suppliers, and distributors should consider several best practices and practical measures, including: (1) clearing the use of all third-party copyrighted works and trademarks during product design and development, or at least prior to shipment; (2) evaluating the content of not only the goods per se, but also product packaging, owners’ manuals, and other product literature; (3) obtaining unambiguous written, English-language licenses from third-party partners; (4) considering whether a U.S. rights-holder has similar rights in other countries and avoiding U.S. ports if the rights do not exist in the target market; and (5) maintaining detailed records regarding shipments, including order forms, invoices, bills of lading, and Customs materials.

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