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New Law Expected to Add Teeth to Current Counterfeiting Laws

December 2008

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Recognizing that the increase in willful violations of U.S. counterfeiting laws pose a serious threat to the economy, both chambers of Congress finally passed the Prioritizing Resources and Organization for Intellectual Property Act (“the PRO IP Act”). The bill has had the strong support of IP owners from the beginning, but was not without criticism from those who have viewed it as pandering to the recording industry as it continues its efforts to stop peer to peer file sharing. Nevertheless, after several modifications, it passed with bipartisan support in both the House and the Senate, including a unanimous vote in the Senate. The bill will enhance remedies for willful trademark counterfeiting, enhance civil and criminal penalties for counterfeiters, provide more funding and personnel for federal and state enforcement, and establish a new cabinet-level IP enforcement coordinator who will report directly to the president and Congress. The bill was signed by President Bush on October 13, 2008.

The PRO IP Act has several components that should help brand owners as outlined below.

Enhanced Civil and Criminal Remedies

Under the PRO IP Act, not only will counterfeiting be more dangerous, with the specter of 20 years in prison for certain instances of counterfeiting, it will also be more costly for those caught in run-of-the-mill counterfeiting of the types of items that one commonly finds sold on street corners, outside of sporting events, and over the Internet, such as fashion accessories, eyewear, personal care products, consumer electronics, software, and music.

First, when intentional trademark counterfeiting is established, actual damages will automatically be trebled, absent extenuating circumstances. This is in addition to recovering reasonable attorneys’ fees, as permitted under current law. For those trademark owners who elect to rely on statutory damages instead of actual damages, the PRO IP Act doubles the maximum statutory damages available for willful trademark counterfeiting from \$1 million to \$2 million, as well as for non-willful counterfeiting from \$100,000 to \$200,000. These increases in statutory damages is expected to result in more efforts by trademark owners to enforce their rights in civil actions, at least for those counterfeiters who have significant assets against which a judgment could be enforced.

Second, the PRO IP Act doubles the maximum period of imprisonment from ten years to twenty years for certain counterfeiting activities. These activities include “trafficking” in counterfeit trademark goods and “knowingly or recklessly” causing bodily injury. If the counterfeit goods resulted in a death, the counterfeiter could face life in prison. These enhanced remedies have been sorely needed to address the increasing numbers of counterfeit pharmaceutical products that are available over the Internet.

Third, criminal forfeiture laws against counterfeiters will be toughened. In addition to allowing for the confiscation and destruction of counterfeit and infringing goods, the PRO IP Act will permit the confiscation and destruction of property used to “to commit or facilitate” such acts — a provision likely to be used to facilitate the seizure of computer systems and computer equipment that are being used to counterfeit products and digital content. These new forfeiture laws go further still,

mirroring harsh penalties for drug dealing in the U.S., by allowing for seizure of property "derived from any proceeds" obtained through counterfeiting activities. That can mean the seizure of cash, investment assets, business property, real estate, homes, and even automobiles.

Enhanced Law Enforcement

Recognizing that there are a number of government agencies that have roles in protecting and enforcing IP rights, the PRO IP Act will establish the cabinet-level position of an Intellectual Property Enforcement Coordinator ("IPEC"), an IP Czar of sorts, a high-profile federal position. The IPEC will be appointed by the president, with Senate confirmation, and will report directly to the president and Congress. The IPEC will chair a new interagency IP enforcement committee comprised of Senate-confirmed representatives from a number of departments and agencies including: The Department of Homeland Security, the Department of Justice, the Department of State, U.S. Customs and Border Protection, U.S. Immigration and Customs Enforcement, the Food and Drug Administration, the U.S. Patent and Trademark Office, the U.S. Copyright Office, and a number of other federal agencies.

The primary function of this committee will be to develop a "joint strategic plan" to fight counterfeiting and piracy, with the joint strategic plan focusing on seven issues: (i) reducing domestic and international counterfeiting, (ii) streamlining enforcement, (iii) coordinating information sharing between agencies, (iv) taking down known counterfeiting networks, (v) assisting other nations in enforcing IP rights, (vi) working with other countries to establish international standards for protecting IP rights, and (vii) constructing processes for consulting with industry. It is hoped that if a process is developed for the federal government to partner with industry in fighting counterfeiting and piracy, the combined efforts will be more successful than under current law.

The establishment of the IPEC position is the most controversial provision remaining in the PRO IP Act, and some commentators have speculated that it could draw a veto from President Bush. The administration does not object to increasing the protection of IP rights in the U.S.; instead, it objects to the creation of a cabinet-level position on the grounds that this would create an "unnecessary bureaucracy." Given the overwhelming bi-partisan support enjoyed by the PRO-IP Act, it is thought that if the bill is vetoed by President Bush, Congress will be able to override the veto.

Moreover, the PRO IP Act will provide more money and personnel to federal agencies for criminal IP enforcement, including more FBI agents, more federal prosecutors, and a \$10,000,000 increase in funding for both the Department of Justice and the FBI. In addition to enhanced efforts at the federal level, the PRO IP Act also provides the Department of Justice with \$25 million a year to distribute in grants to state and local law enforcement agencies for increased enforcement efforts against IP infringers.

Expanding the Fight Globally

The PRO IP Act ambitiously looks beyond U.S. borders as well, to target IP issues internationally. In addition to the international enforcement efforts assigned to the IPEC, the PRO IP Act calls for the United States Attorney General to establish an Organized Crime Task Force for investigating and prosecuting international IP crime syndicates. Congress states in the bill that "terrorists and organized crime utilize piracy, counterfeiting, and infringement to fund some of their activities," and declares that "the Attorney General shall give priority to cases with a nexus to terrorism and organized crime."

The United States is not alone in its fight. The changes in U.S. counterfeiting laws are mirrored, to some extent, by a new anti-counterfeiting plan that is being launched in the European Union, following approval by the European Union ministers on September 26, 2008. The new EU anti-counterfeiting plan will improve coordination and information exchange between different agencies (from each of the 27 member countries), in an effort to reduce large and small-scale counterfeiting. With the increased focus on counterfeiting and piracy in both the U.S. and the EU, perhaps brand owners can look forward to a day when they are no longer required to spend substantial resources fighting to keep counterfeit products off the streets.

Preparing for the PRO IP Act

The PRO IP Act can provide immediate benefits to brand owners, including the ability to seek up to two times the statutory damages that are available under current laws in civil actions. However, as

under current laws, civil penalties for counterfeiting are only available for properly registered trademarks and copyrights. If they want to be in a position to take advantage of the enhanced penalties available under the PRO IP Act, IP owners should take a look at their IP portfolio now to make sure that their most important rights are properly registered and can be enforced.