Uncovering Enhanced Trademark Protections In The NDAA

Law360, New York (March 06, 2012, 1:07 PM ET) -- The annual National Defense Authorization Act is usually only of interest to lobbyists and defense contractors — not intellectual property lawyers. Surprisingly, however, the 2012 bill[1] included significant changes to the criminal enforcement of trademark infringement.

Section 818 of the massive bill changed 18 U.S.C. §2320, which covers trafficking in counterfeit goods.[2] As rewritten, the new statute covers those who intentionally traffic in goods using a counterfeit mark, or attempt or conspire in such trafficking.[3] So while the old statute covered intentional and attempted counterfeiting, the amended statute creates a new offense for conspiracies.

Likely Genesis of the NDAA Provisions

In May 2011, the Report of the Committee on Armed Services of the U.S. House of Representatives on H.R. 1540 (which became the National Defense Authorization Act of 2012), expressed concern about the diminished capacity of the United States to design and manufacture the new generations of electronic parts required for advanced weapon systems, the extent to which defense industry prime contractors are relying more on subcontractors, including commercial suppliers, and the increasing dependence on offshore sources.

The result, in the committee's view, was that the acquisition of electronic parts, especially integrated circuits, by U.S. defense contractors had become "increasingly insecure and susceptible to compromise through counterfeit or maliciously-altered circuits"[4] The committee also noted that studies by the U.S. Government Accountability Office had found that the U.S. Department of Defense "lacks a framework and consistent approach for managing supplier base concerns such as counterfeit parts in the supply chain."[5]

Similarly, a June 2011 GAO report identified an "increase in counterfeiting of electronic parts" used by defense contractors.[6] At the request of the U.S. Senate Committee on Armed Services, the GAO commenced an investigation into the availability of counterfeit military-grade electronic parts on Internet purchasing platforms, and reported results of the ongoing investigation in November 2011. The GAO found, as of that date, that

> None of the 7 parts we have complete results for are authentic. … These parts included two voltage regulators and one operational amplifier, the failure of which could pose risks to the functioning of the electronic system where the parts reside.[7]

The suspect counterfeit operational amplifier is "commonly found in the Army and Air Force's Joint Surveillance and Target Attack Radar System (JSTARS); the Air Force-s F-15 Eagle fighter plane; and the Air Force, Navy, and Marine Corps Maverick AGM-65A missile," and the GAO cautioned that: [8]

> If authentic, this part converts input voltages into output voltages that can be hundreds to thousands of times larger. Failure can lead to unreliable operation of several components (e.g., integrated circuits) in the system and poses risks to the function of the system where the parts reside. ...[A]ll of the parts we purchased and received to date were provided by vendors in China.

Apparently prompted by these findings, Congress approved Section 818 of the 2012 bill, which creates new crimes and penalties for "counterfeit military goods and services.[9] Absent from the GAO's reports and testimony, however, were any findings relating to conspiracies to counterfeit trademarked goods — military or otherwise.

Nevertheless, the evident need to halt the flow of counterfeit goods from offshore sources appears to have motivated Congress to impose greater liability on domestic companies that might be complicit in or indifferent to their own acquisition of counterfeit electronic parts that could find their way into and compromise or damage the operation, not only of defense systems, but of machinery and systems on which the nation's critical infrastructure depends, such as the implementation of the so-called "smart grid".[10]

Trademark Counterfeiting Conspiracy — No Overt Act Required

Those familiar with federal criminal law might point out that there has long been a general conspiracy statute, 18 U.S.C § 371, which makes it a crime to conspire to commit "any offense against the United States."[11] This language appears to make a federal crime out of a conspiracy to violate any federal law. Indeed, the Unites States Attorneys' Manual helpfully points out that conspiracies in violation to traffic in counterfeit goods may be prosecuted under § 371.[12]

So what does the change in § 2320 accomplish? While conspiracy to commit trademark counterfeiting was already a chargeable offense, the new statute eliminates the requirement for an overt act in furtherance of the conspiracy. Under the general provisions of § 371, criminal culpability requires that "one or more of such persons do any act to effect the object of the conspiracy."[13]

But the new § 2320 has no such requirement. Without an overt act requirement, a person can be found guilty of counterfeiting conspiracy merely by agreeing to violate the act, without any actions in furtherance of the conspiracy. As a result, U.S. Attorneys will find it significantly easier to charge and prosecute trademark counterfeiting defendants, and perhaps to focus on domestic suppliers of electronic parts that appear to be complicit with offshore sources who are willing to provide counterfeit parts to fill an order.

Note that the GAO's ongoing investigation has found that the offshore suppliers of counterfeit and bogus parts engage in the following practices: Parts are re-marked, represented as made on a date after the last production of such parts (for the purpose of having such parts appear to be newer than they actually are), or to have part numbers that are not associated with parts that have ever been manufactured. Since such practices could be detected by enhanced scrutiny by domestic companies (or ignored by complicit domestic firms), U.S. Attorneys may use enforcement of the new statute to deter companies from buying inexpensive, counterfeit parts from offshore sources.

Moreover, U.S. Supreme Court law provides no comfort to those that might argue that an overt act is still required. The court considered an analogous statute in Whitfield v. United States, where a defendant was convicted of conspiracy to commit money laundering under 18 U.S.C. § 1956(h).[14]

Defendant David Whitfield argued that § 1956(h), which also lacks a specific overt act requirement, didn't establish a new offense and only increased the penalties for conspiracy under § 371.[15]

Accordingly, he contended that the conspiracy under the money laundering statute still required an overt act.[16] The Supreme Court rejected this argument, finding that the text of the money laundering statute did not require any overt act.[17] Thus, there is a strong likelihood that any attempt to import an overt act requirement into § 2320 will fail.

Penalties for Conspiracy and Victim Impact Statement

In addition to removing the overt act requirement, the changes to § 2320 include increased penalties. Under § 371, conspiracy is punishable by up to five years imprisonment.[18] The changes to § 2320 make conspiracy punishable to the same degree as intentionally or attempting to commit the offense. [19] These punishments range up to $15 million and even life imprisonment for offenses that cause death.[20]

In addition, the amended statute includes a new provision that permits victims of the offense to submit a "victim impact statement that identifies the victim of the offense and the extent and scope of the injury and loss suffered by the victim, including the estimated economic impact of the offense on that victim."[21] The persons qualified to submit such impact statements includes producers and sellers of legitimate goods affected by the offense and holders of intellectual property rights in such goods or services.[22]

Companies that find themselves losing business as the result of another domestic firm's violation of this statute will now have an incentive to develop contemporaneous detailed records concerning the extent and scope of losses and estimated economic impact that could then become the foundation for an impact statement to the court and increase the penalties imposed on the offending competitor.

Conclusion

The change to the statute in trafficking in counterfeit goods significantly lowers the bar for conspiracy. In addition, the fact that this important shift in § 2320 occurred in the National Defense Authorization Act will likely cause it to go unnoticed by those who represent potential trademark counterfeiting defendants and those who represent victims of trademark counterfeiting. Furthermore, those injured by counterfeit products will find the addition of the victim impact statement a useful measure to diminish the market advantage sought by competitors using counterfeit parts.

Accordingly practitioners need to be aware of the risks and opportunities created by change: Merely agreeing to traffic in counterfeit goods could send cognizant officers of your client to prison for life, but developing a record of damage suffered from a competitor's use of counterfeit parts could help diminish the advantage the competitor sought to obtain by illicit means.

In short, the new provisions create a double-edged sword, and practitioners will want to ensure that their clients know that it cuts both ways — to their detriment if they do not implement measures to detect their own company's purchasing practices that may be complicit in the use of counterfeit parts, and to their advantage if they find that a competitor has been gaining market share by practices that violate the enhanced provisions of the statute.

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[1] Passed on Jan. 5, 2012.

[2] H.R. Res. 1540, 112th Cong. (2012) (enacted).

[3] 18 U.S.C. § 2320(a).

[4] Report of the Committee on Armed Services of the U.S. House of Representatives on H.R. 1540, May 17, 2011, accessed at http://www.gpo.gov/fdsys/pkg/CRPT-112hrpt78/html/CRPT-112hrpt78.htm.

[5] Ibid, at § 832.

[6] Space and Missile Defense Acquisition: Periodic Assessment Needed to Correct Parts Quality Problems in Major Programs, GAO-11-404 (June 2011) at 20.

[7] GAO Testimony before the Committee on Armed Services, U.S. Senate, DOD Supply Chain: Preliminary Observations Indicate That Counterfeit Electronic Parts Can Be Found on Internet Purchasing Platforms, GAO-12-213T, Nov. 8, 2011, pp. 2 – 3, accessed at http://www.gao.gov/new.items/d12213t.pdf.

[8] Ibid, at 3, 8.

[9] 18 U.S.C. § 2320(a)(3); (b)(3).

[10] Nor was their any mention of counterfeiting conspiracy in the GAO's most recent report on intellectual property counterfeiting. See generally, Intellectual Property: Observations on Efforts to Quantify the Economic Effects of Counterfeit and Pirated Goods, GAO-10-423 (April 2010).

[11] 18 U.S.C. § 371 (enacted 1948).

[12] See United States Attorneys' Manual, Title 9, Section 1740 (available at http://www.justice.gov/usao/eousa/foia_reading_room/usam/title9/crm01705.htm).

[13] 18 U.S.C. § 371.

[14] Whitfield v. United States, 543 U.S. 209, 211 (2005).

[15] Id. at 214-15.

[16] Id.

[17] Id. at 219.

[18] 18 U.S.C. § 371.

[19] 18 U.S.C. § 2320(a).

[20] 18 U.S.C. § 2320(b).

[21] 18 U.S.C. § 2320(e).

[22] Id.