The Impact of Counterfeiting on the Energy Industry

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Counterfeiting is Ubiquitous Today
Counterfeiting is Big Business

• In 2016, the Department of Homeland Security seized counterfeit goods valued at over $1.3 billion at US borders.

• Globally, the trafficking of counterfeit goods is much larger, and growing.

What Are the Costs of Counterfeiting?

Besides the direct loss of sales, lower quality products sold by counterfeiters may lead to irreparable damage to corporate brand/reputation.

Counterfeit Goods are Largely Coming from China and Hong Kong

Source: https://www.cbp.gov/sites/default/files/assets/documents/2017-Jan/FY%202016%20IPR%20Stats%20FINAL%201.25.pdf
Counterfeiting’s Burden on the US

Figure 4.3. Seizures of counterfeit and pirated goods: Top economies of origin of right holders whose IP rights are infringed (pooled dataset)

US Seizures by the Dept. of Homeland Security Have Been Increasing

Counterfeiting in Energy

Counterfeit goods are no longer limited to luxury goods, but have made their way into an array of products ranging from fake oil being sold to fake auto parts and even equipment in the US military.
Sources of US Counterfeiting Law

- Tariff Act (19 U.S.C. § 1337)
  - Limited or general exclusion order by the ITC
- The Lanham Act (15 U.S.C. § 1116)
  - Trademark Counterfeiting Act of 1984
    - Imprisonment up to 10 years and fines up to $15 million
  - Stop Counterfeiting in Manufactured Goods Act of 2006
    - Mandatory forfeiture, destruction, and restitution provisions
Tariff Act of 1930 Section 337

- 19 USC § 1337, pursued by the US International Trade Commission (“ITC”)

- Prohibits “unfair methods of competition and unfair acts in the importation of articles…into the United States, or in the sale of such articles by the owner, importer, or consignee” that threaten to or have the effect of “destroy[ing] or substantially injur[ing] an industry,” “prevent[ing] the establishment of such an industry” or “restrain[ing] or monopoliz[ing] trade and commerce in the United States.”
• If the ITC finds a violation, it can issue a limited or general exclusion order, directing US Customs and Border Protection to exclude the infringing products from the US. There is no intent requirement!

• Section 337 proceedings may be initiated by the ITC itself but are typically commenced by complaints brought by affected private parties.
The Lanham Act Section 1116(d)(1)

- Civil lawsuits by the trademark owner under the federal trademark law for the recovery of damages, lost profits, attorneys’ fees and injunctive relief.

- (A) …. with respect to a violation that consists of using a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services, the court may, upon ex parte application, grant an order under subsection (a) of this section pursuant to this subsection providing for the seizure of goods and counterfeit marks involved in such violation and the means of making such marks, and records documenting the manufacture, sale, or receipt of things involved in such violation.
Best Practice #1: Obtain Trademark Registration

• 1116(d)(1)(B) As used in this subsection the term “counterfeit mark” means
  – (i) a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered; or
Counterfeiting vs. Infringement

**Counterfeiting**
All counterfeit marks are infringing.

Counterfeit marks include marks that are "substantially indistinguishable" from a genuine mark, this definition contemplates only minor or trivial differences from the genuine mark.

**Infringement**

**NOT** all infringements are counterfeits.

Infringing marks also include a broader class of marks that are "confusingly similar" to genuine marks. The "confusingly similar" test for infringing marks contemplates wider differences.
(a) Offenses.—Whoever intentionally—

– (1) traffics in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services,

– (2) traffics in labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature, knowing that a counterfeit mark has been applied thereto, the use of which is likely to cause confusion, to cause mistake, or to deceive….

– …. or attempts or conspires to violate any of paragraphs (1) through (4) shall be punished as provided in subsection (b).
Trademark Counterfeiting Act of 1984
(18 USC § 2320)

• (b) Penalties.—
  – (1) In general.—Whoever commits an offense under subsection (a)—
    • (A) if an individual, shall be fined not more than $2,000,000 or imprisoned not more than 10 years, or both, and, if a person other than an individual, shall be fined not more than $5,000,000; and
    • (B) for a second or subsequent offense under subsection (a), if an individual, shall be fined not more than $5,000,000 or imprisoned not more than 20 years, or both, and if other than an individual, shall be fined not more than $15,000,000.
Trademark Counterfeiting Act of 1984
(18 USC § 2320)

• (2) Serious bodily injury or death.—
  – (A) Serious bodily injury.—
    • Whoever knowingly or recklessly causes or attempts to cause serious bodily injury from conduct in violation of subsection (a), if an individual, shall be fined not more than $5,000,000 or imprisoned for not more than 20 years, or both, and if other than an individual, shall be fined not more than $15,000,000.
  – (B) Death.—
    • Whoever knowingly or recklessly causes or attempts to cause death from conduct in violation of subsection (a), if an individual, shall be fined not more than $5,000,000 or imprisoned for any term of years or for life, or both, and if other than an individual, shall be fined not more than $15,000,000.
Wholesaler-Distributor Liability

- A wholesaler-distributor selling a counterfeit product (with or without knowledge that it is counterfeit) faces legal action by injured parties if the product is defective and causes death, personal injury, property damage, interruption of business operations or other losses.

- In these instances the wholesaler-distributor will likely be the one who is ultimately liable to pay these damages – since it is unlikely the manufacturer of the counterfeit product can be found, or is solvent, or insured, or can be subject to U.S. jurisdiction.
Stop Counterfeiting in Manufactured Goods Act of 2006 (Revised 18 U.S.C § 2320)

• The addition of mandatory forfeiture, destruction, and restitution provisions.

• 18 U.S.C. § 2320(c): “Forfeiture, destruction, and restitution relating to this section shall be subject to section 2323…., in addition to any other similar remedies provided by law.”

• 18 U.S.C. § 2323(a): Civil forfeiture of “Any article, the making or trafficking of which…,” “Any property used, or intended to be used…,” “Any property constituting or derived from proceeds…,”

• 18 U.S.C. § 2323(c) (Restitution): “When a person is convicted of an offense…., the court …. shall order the person to pay restitution to any victim of the offense….”

- Mid-State is a multi-branded distributor
- It was authorized to repackage bulk fluid purchased from CITGO and to use its trademarks for the resale of products purchased from CITGO
- It had not purchased any genuine CITGO fluid since 2008, yet it was still purchasing CITGO packaging labels from a vendor and selling fluid using those labels

- CITGO claimed this amounted to false advertising, unfair competition, trademark counterfeiting, breach of contract and deceptive trade practices
- Loss of control of one’s reputation by the adoption of a counterfeit mark provides a substantial threat of irreparable harm
- A preliminary injunction was granted and the case was then settled
Best Practice #2: Join a trade association

- The Independent Lubricant Manufacturer's Association (ILMA) sent CITGO a sample of hydraulic fluid it purchased from Mid-State which it tested and found not only failed to match the CITGO chemical fingerprint, but did not even meet the “basic industry standard.”
Russian Police Arrest Counterfeit Motor Oil Gang

- The Russian police have recently arrested several members of a criminal group that has reportedly produced and sold counterfeit motor oil bearing fake marks of Shell, Total, Mobil, Elf, Castrol, Ford, General Motors, Toyota, Nissan, Mazda, Volkswagen and BMW, among others.

- Imported plastic canisters from Belarus were filled with fake oil and marked with fake labels in Moscow. The police found 70 tons of fake motor oil in more than 80,000 canisters during raids of several storage and production facilities.

- The fake oil was allegedly sold in Moscow in auto part shops, during auto part shows and through unlicensed street vendors.

- Link to video showing authorities at one of the criminal group’s sites: [https://www.youtube.com/watch?v=1oRGRn4T95I](https://www.youtube.com/watch?v=1oRGRn4T95I)

Russian Police Arrest Counterfeit Motor Oil Gang (cont.)

- The factories were stuffed with oil canisters brought from Belarus and used as the processing place. The next step was filling up cheap plastic cans with the counterfeited engine oil, applying labels which perfectly imitate the legal ones.


- CGM reconditioned top-entry ball valves originally manufactured and sold by Joy under its “WKM” trademark
- The valves were cleaned, painted, and affixed with a new, unauthorized “WKM” nameplate. When sold by CGM, these refurbished valves appeared to be new.

• The reworked valves by CGM no longer met the specifications of the original manufacturer
• The court found trademark counterfeiting and trademark infringement
• Joy was awarded attorney’s fees, treble damages, and treble profits
Best Practice #3: Customer Awareness Campaigns

- Globally, the trafficking of counterfeit goods has been growing larger due to CONSUMER demand
- Make efforts to educate consumers about the costs of buying counterfeit products:
  - IT'S DANGEROUS
  - IT COULD COST YOU
  - IT'S ILLEGAL
  - IT COSTS YOUR CITY
  - IT SUPPORTS CHILD LABOR
  - IT SUPPORTS ORGANIZED CRIME
  - IT HURTS LEGITIMATE COMPANIES

Source: http://www.iacc.org/resources/about/what-is-counterfeiting
“Don’t Gamble with Counterfeit Parts”

https://www.youtube.com/watch?v=GyeAkoiDALE
3 P’s for Avoiding Fakes

• Price
  – If the price looks too good to be true, it probably is

• Packaging
  – If the product is being sold without its packaging, or the packaging appears to be of low quality, or includes printing errors (for example, blurry pictures, typos, spelling or grammatical errors) it is probably counterfeit

• Place
  – Deal only with legitimate, established merchants. Is the product being sold in-store or online? Are there grammatical or spelling errors in the store or on the website?

Source: http://www.iacc.org/resources/about/what-is-counterfeiting
Best Practice #4: Know Your Supply Chain

• Middlemen involved in the money supply chain are potential targets to choke the flow of illicit goods. Banks have been fined billions of dollars for money laundering in recent years.

• RogueBlock®: A collaborative between the IACC and the payment industry that stops funds from reaching counterfeiters. Program participants can easily report online sellers of fake or pirated goods directly to credit card and financial services companies.

Source: http://www.iacc.org/online-initiatives/rogueblock
Online Marketplace Counterfeiting

I think motor oil I purchased is counterfeit. What should I do?

Hi! I purchased honda motor oil, power steering fluid, brake fluid and an oil filter from a seller as one transaction. That's how it was offered including 4 (1 of each) oil and then 1 of each of the others. I paid about $45 and I was worried about if these were going to be counterfeit products. I went online and discovered there was a big bust in the UK over motor oil and it is supposedly still going on. Honda brand was named. It gave ways to tell a knock off including misspellings and if the oil smells burnt. I opened the oil and it smells burnt. Also I examined the bottle against pictures of the product online and there is a very subtle difference. On the back of the bottle two of the words are on different lines then they should be. It says the exact same thing but two words get bumped down to the last line on the original bottle I am viewing online whereas on the oil I received the two words are continued on the second to last line, resulting in a shorter last line of words. The last line looks shorter even though it's the same words. I think that is proof these are fake. Now I don't want any of it. What do I do? Does this sound like a fake?
The IACC MarketSafe® Program

- An initiative created in partnership with the Alibaba Group that helps brands expedite the take down of infringing listings on its Taobao and Tmall sites

Source: http://www.iacc.org/online-initiatives/marketsafe
Best Practice #5: Publicize Anti-Counterfeiting Initiatives

Why do counterfeits hurt the community?
eBay is committed to preventing the sale of counterfeit products because:
- It's illegal and harmful to the marketplace
- Buying a counterfeit is a bad experience for you and the brands you trust
- Counterfeits undermine buying trust
- It's bad for honest sellers who deal in authentic merchandise

What can you do to help?
eBay users:
- Don't buy or sell counterfeit goods
- Learn about the law and our policies
- Report suspicious goods by clicking on the "Report this item" link at the bottom of the listing
- Pay for your purchases using PayPal

Do you suspect that you bought a counterfeit?
- Warn others by leaving honest feedback
  - If you paid with PayPal, file a claim for Buyer Protection

Rights owners:
- Participate in the Verified Rights Owner Program
- Create a Verified Rights Owner "About Me" page

What are we doing to prevent counterfeit listings?
We're constantly working to make our site safer by:
- Proactively removing suspicious items
- Removing items reported as counterfeit by brand owners
- Working closely with law enforcement to prosecute offenders
- Enforcing selling limits on some items
- Restricting seller activity in certain categories
- Providing free tools for rights owners to efficiently identify and report items to us for immediate removal
- Partnering with brand owners and industry initiatives to bring attention to and combat the issue worldwide
Best Practice #6: Anti-Counterfeiting Devices

- Designations that are difficult for counterfeiters to replicate (e.g., holographs) showing that products are genuine help customers from unknowingly buying counterfeits.
Anti-Counterfeiting Devices

- Unique Serialization
- Product Authentication (Registration online)
- Track and Trace (Chain of custody)
- Physical Product Tampering Prevention

Advising Client on Counterfeit Products

1) Meet with client to obtain preliminary information for analyzing the supply chain
2) Internet monitoring, market survey research, and customs relations
3) Due diligence and background checks on companies suspected of counterfeiting
4) Investigations, surveillance on suspected companies
5) Test purchases by undercover buyers and legal advice
6) Involvement of law enforcement
7) Court proceedings, legal strategy, and have police testify
Best Practices for Dealing with Counterfeiting in the Energy Industry

- Obtain trademark registration (A counterfeit mark’s definition requires it to be on the register)
- Consider being a member of a trade association (such as the ILMA)
- Develop consumer awareness strategies
- Know your supply chain, target solvent players (RogueBlock® for payment-processors, MarketSafe® for counterfeit online listings)
- Publicize Anti-Counterfeiting Initiatives
- Integrate product tamper-prevention, unique serialization, authentication
HOWARD J. SHIRE, Partner, New York - Battery Park Office. With more than 30 years' experience, Howard is a skillful litigator who protects and defends his clients' products and IP rights against infringement. He is an experienced mediator and member of the International Trademark Association’s Trademark Mediators Network, and has served as an arbitrator under the auspices of the American Arbitration Association. Howard also has an active counseling and prosecution practice. In addition, he counsels clients on intellectual property matters relating to Internet issues and the selection of new trademarks and domain names. He represents clients from a wide range of industries, including computer hardware and software, consumer electronics, solar energy, financial services, apparel, nutritional supplements, publishing, personal care products, alcoholic beverages and pharmaceuticals. Howard earned his J.D. in 1979 from New York University School of Law. He received his B.A. from Brown University in 1975.