

How Cos. Can Combat Knockoffs At And Beyond ITC This Year

By Josh Pond and Preetha Chakrabarti (March 2, 2021, 4:40 PM EST)

Even before the COVID-19 pandemic, knockoffs were a \$500 billion global criminal enterprise, predicted to double by 2022 with the exponential rise in e-commerce. 2020's pandemic accelerated both phenomena: Within three months of onset in the U.S., online shopping spiked 32%, throwing open the door to fake fashion, electronics, medicines and more.

Now more than ever, makers and sellers of authentic products need the most powerful tools at their disposal to combat knockoffs. The U.S. International Trade Commission wields a veritable sledgehammer against knockoffs by enforcing Section 337 of the U.S. Tariff Act of 1930 and offering swiftly adjudicated exclusion orders against knockoff imports, enforced by U.S. Customs at sea and at airports.

In just the past year, Jeep won an ITC exclusion order against trade dress infringing vehicles, Varidesk LLC scored exclusion of patent-infringing standing desks, BIC Corp. won exclusion of trade dress infringing lighters, and Bose Corp. benefited from exclusion of patent-infringing earbuds.

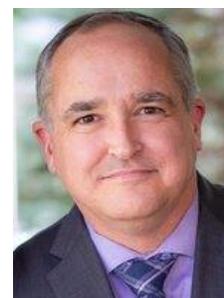
Yeti Holdings Inc.'s ITC action particularly illuminates its knockoff problem, solution and outcome over the course of 2015 to present. Here we examine this pressing problem and powerful solutions for brands, manufacturers, wholesalers and retailers in 2021.

Yeti is the story of a niche, luxury fishing cooler company that boomed to a \$470 million cult brand by 2015. After its coolers hit the market — and American college campuses — in 2006, Yeti expanded its business to include an equally popular line of insulated drinkware.

Yeti's rise to iconic status, however, was almost put on ice in 2017, as its sales turned downward — from nearly \$820 million in 2016 to less than \$650 million by year end 2017. Finding mass counterfeiting of its drinkware products to be the source of substantial lost sales and reputational harm, Yeti turned to the ITC, filing a complaint against knockoffs in late 2017.

The Problem

Knockoffs[1] are a business, tort and intellectual property problem. They are a business problem



Josh Pond



Preetha
Chakrabarti

because they erode the competitiveness of innovators, result in lost revenue, and often lost jobs, for the legitimate brand, and affect the legitimate brand's reputation.

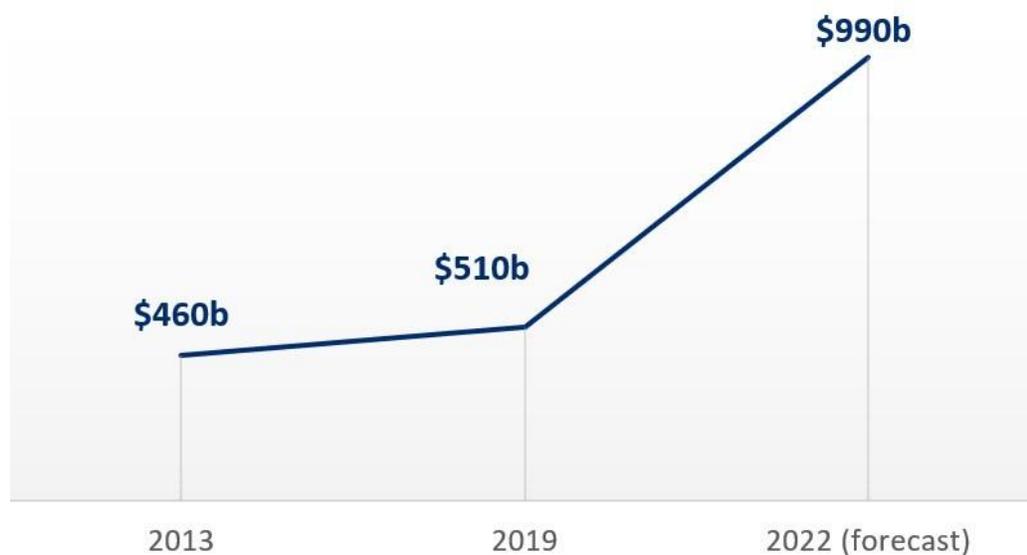
They are a tort and personal injury problem because these goods can physically harm consumers. Sellers of knockoffs do not submit products to safety testing. Knockoff cosmetics products can cause skin infections and rashes; knockoff automotive parts, technology and vapes can cause injury or even death.

Knockoffs are an intellectual property problem because they emanate from purposeful duplication of protected intellectual property. Where knockoffs run amuck, creators cannot rely on the compensatory promises of U.S. intellectual property law in exchange for their innovation, weakening innovation incentives and diminishing brand reputation.

The Numbers

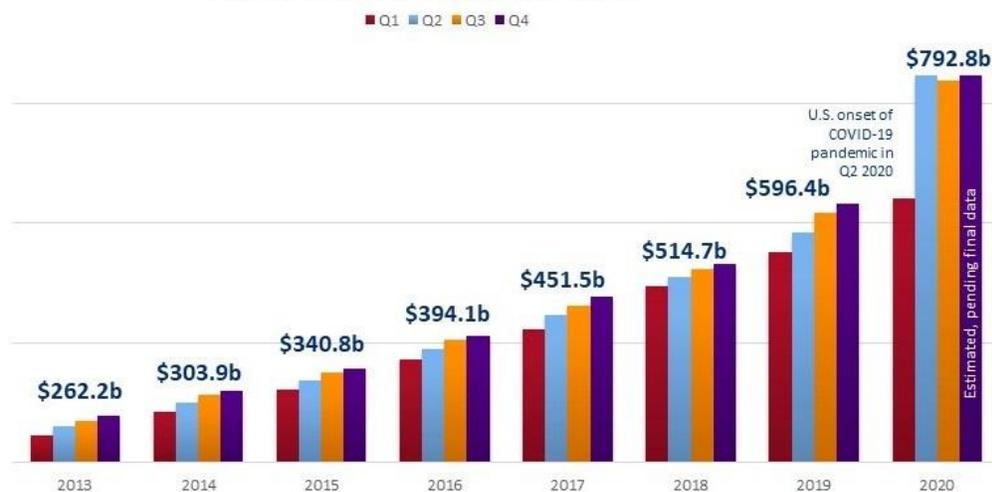
As of 2019, knockoffs represented a half trillion-dollar industry that is estimated to double by 2022 as shown in Figure 1.[2] Still others estimated that counterfeiting would boom to a \$4.2 trillion industry by that year.[3] Symptomatically, reports indicate that product reviews mentioning "counterfeit," "counterfiet" or "fake" were on the rise, accounting for 1.7% of reviews in 2015, then 4.3% in 2019.

Figure 1: Value of Global Counterfeit Market



And those figures were all pre-pandemic: COVID-19 drove sales online, far more fertile ground for knockoffs than in-store sales. As shown in Figure 2, U.S. e-commerce sales grew steadily through 2019 to \$600 billion that year.[4] That steady rise continued in the first quarter of 2020, then shot up 32% in the second quarter as the pandemic took hold, resulting in a 2020 annual estimate of nearly \$800 billion on online sales in the U.S. alone.

Figure 2: U.S. E-Commerce Sales



The Drivers

E-Commerce

Especially now, people feel safer shopping from home, making it more difficult to detect knockoffs. Online marketplaces also typically do not screen products or sellers, often making it hard to figure out who the seller of a product even is. There are very low barriers to entry and reentry, and sellers may reach buyers all over the globe. Products are often sold directly to consumers, making detection and enforcement difficult, resulting in a diffusion of responsibility as to who must address knockoff goods.

Social Media

Rights holders have expressed concern that social media providers do not verify the legitimacy of advertisers. According to a 2019 report, nearly 20% of the fashion product Instagram posts that were analyzed featured knockoffs.[5] The report also identified over 50,000 Instagram accounts as promoting knockoffs, an increase of 171% from a 2016 analysis.[6] Social media's targeted ad campaigns and hidden links or listings, among other mechanisms, make the promotion of knockoffs all the more difficult to catch.

Legal Landscape

Section 321 of the Tariff Act has unwittingly encouraged counterfeiters to favor smaller-parcel delivery, because low-value imports are not subject to the same rigorous customs entry procedures and data requirements.

And the doctrine of secondary trademark infringement liability has fallen behind technological changes since the 2010 U.S. Court of Appeals for the Second Circuit decision in *Tiffany (NJ) Inc. v. eBay Inc.*, creating a gap in guardianship. A significant portion of knockoff sellers are also beyond the jurisdiction

of American courts.

These drivers each gained steam with the pandemic, which disrupted supply chains worldwide and shuttered physical markets, herding consumer traffic online and creating new opportunities for counterfeiters. Between March and April 2020, detections of counterfeits increased 38% across apparel, accessories, home goods, toys and sporting goods.[7]

And with larger retailers curbing digital advertising spend during the pandemic, advertising space on social media has become cheaper and easier to obtain — a perfect opening for sellers of knockoffs. It is also more challenging to conduct investigations and raids during a pandemic given health risks, reduced staffing and other concerns.

Counterstrategies

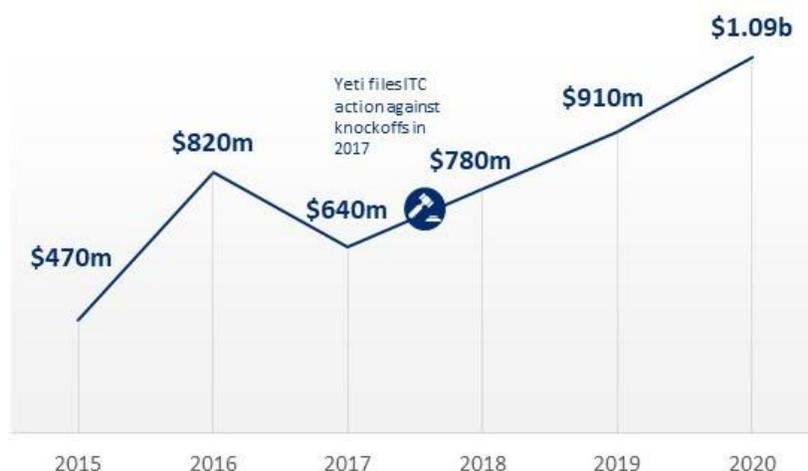
Savvy, brand-protective companies are deploying counterstrategies this year. The ITC offers aggressive — and perhaps underappreciated — leverage against knockoff goods in a world of slow, fragmented and partial measures. The ITC is the government enforcement mechanism for Section 337, which bars unfair imports in the context of domestic industries, including those that infringe design or utility patents, violate trademarks, are falsely advertised or otherwise constitute unfair imports.

While costs for an ITC action are generally the same as those brought in district court, the ITC provides a front-loaded process that is speedier than judicial solutions. A bipartisan panel of commissioners and six administrative law judges with specialized expertise comprise the ITC. In 2020, the ITC resolved 62 complaints, up over 50% from 2015, and is forecast to address eighty such complaints this year.

In September 2017, Yeti asked the ITC to block knockoff insulated beverage cups and bottles from 13 respondents, alleging false advertising, passing off, and infringement of two trademarks, three copyrights, and four design patents. Between February and June 2018, 10 of those respondents settled, and the complaint was withdrawn as to an 11th.

By December 2018, the remaining two respondents suffered default exclusion orders. Yeti's sales responded in turn — up from \$640 million in 2017, to \$780 million in 2018, \$910 million in 2019, and \$1.09 billion in 2020, according to Yeti's public financial statements as shown in Figure 3.

Figure 3: Yeti Regains Sales After ITC Action



Why turn to the ITC? In the wake of this global pandemic and the explosion in e-commerce, the ITC is a more important resource than ever before, offering five distinct advantages over other options against knockoffs.

First, the ITC is fast and furious, boasting an estimated 18 months from complaint to judgment: 10 months from complaint to trial, and just four months from complaint to default judgment against no-show respondents.

Complainants may also obtain speedy consent judgments against respondents who voluntarily agree to stop illegally importing knockoff products. Yeti's first settlement consents came within five months of its complaint, and its final default judgment came within 16 months. This stands in stark contrast to the two- to three-or-more-year resolution process in U.S. district courts.

A second advantage of the ITC is far-reaching jurisdiction. While plaintiffs in district court must demonstrate the court's in personam jurisdiction over the defendant, the ITC is endowed with in rem jurisdiction — over the imported articles accused of IP infringement, rather than the alleged infringer.

This jurisdictional superpower allows the ITC to investigate and act against any entity importing to the U.S. Eleven of Yeti's 13 targets were in Hong Kong and China. Bose named respondents from China to Sweden. Jeep acted against knockoffs from India. Varidesk named 11 respondents from China.

Third, and relatedly, the ITC has broad supply chain reach. Respondents in an ITC action can include those who sell knockoffs domestically, import them into the U.S. or sell products for import abroad — in other words, manufacturers, distributors and retailers alike in a single action. Yeti's targets included Chinese online marketplaces Alibaba and DHGate, Chinese trading and technology companies, and American online marketplaces Wish of Seattle and Bonanza of San Francisco.

The ITC can even reach downstream products that incorporate infringing articles. This broad reach, combined with the ITC's powerful in rem jurisdiction, gives complainants the ability to address multiple knockoff actors at once. In fact, in 2020, 58% of ITC investigations had upward of five respondents, some with as many as 50.[8]

Fourth, ITC respondents are subject to probing discovery, requiring that they respond or face default exclusion. This lies in stark contrast with the elaborate Hague Convention efforts necessary in U.S. district courts as to foreign activities.

And fifth, the ITC's remedies are powerful: It can exclude exports against named respondents, and potentially against the world, in the form of a general exclusion order if a complainant can show a pattern of unfairness and difficulty identifying the product source. The ITC awarded general exclusion orders to Bose, BIC and Varidesk. Such exclusions are reviewed by the U.S. Trade Representative and enforced by U.S. Customs and Border Protection.

Further countermeasures should also be considered against the ballooning knockoff industry. The U.S. Trade Representative publishes an annual notorious markets list, highlighting physical and online markets that engage in or facilitate counterfeiting or piracy, although this measure is geared toward awareness rather than action.

Recordation of registered trademarks with Customs and Border Protection can help catch knockoff

products at the border, but recordation is generally not prioritized like an ITC exclusion order.

Litigation in the district courts is always an option — notwithstanding the hurdles of jurisdiction, discovery and proof — and can be particularly helpful in recouping monetary damages.

Direct action in China and elsewhere abroad may be available as well, in the form of seizures of knockoff goods where IP violations can be shown.

Online marketplaces are taking their own measures against knockoffs as well: Amazon.com Inc., for example, offers its brand registry and has recently joined Yeti as well as Salvatore Ferragamo SpA in legal actions against knockoffs.

2020 was also a major year for proposed legislation directed at knockoffs, including the Shop Safe Act, the Inform Consumers Act and the Santa Act. But it has yet to be seen whether this legislation will become effective law.

A familiar adage holds that law lags behind science. It might similarly be said that knockoff countermeasures lag behind knockoffs. This needn't be the case. The ITC offers unique leverage: Amid the web of knockoff makers extending throughout China and the world, and the web of knockoff sellers extending throughout the U.S., the choke point between these webs is sea-and-airport border crossings. An ITC exclusion order, enforced by CBP, can throttle knockoffs at this choke point.

Like Yeti, Jeep, Varidesk, BIC and Bose, major brands are discovering the ITC to recover market share lost to knockoffs of their products: Reebok International Ltd. and Converse Inc. sneakers, Louis Vuitton Malletier SA handbags, Lego System A/S toys, even The Clorox Co. bleach.

While the pandemic will be behind us one day, e-commerce is here to stay. Winners and losers will abound. Those who tactically deploy the ITC's muscular authority stand to benefit their consumers and brands, while putting rogue actors in their place.

Josh Pond is a partner and Preetha Chakrabarti is counsel at Crowell & Moring LLP.

Crowell & Moring associates Suzanne Trivette and Carissa Wilson contributed to this article.

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[1] A quick word on terminology: We refer broadly to knockoffs as illicitly resembling another product, ranging from identical counterfeits to those more generally purposefully emulating the look and feel of another product.

[2] See U.S. Intellectual Property and Counterfeit Goods — Landscape Review of Existing/Emerging Research, Library of Congress (Feb. 2020), <https://www.uspto.gov/sites/default/files/documents/USPTO-counterfeit.pdf>.

[3] See Global Impacts of Counterfeiting and Piracy to Reach US\$4.2 trillion by 2022, Int'l Chamber of Commerce (Jun. 2, 2017), <https://iccwbo.org/media-wall/news-speeches/global-impacts-counterfeiting->

piracy-reach-us4-2-trillion-2022/.

[4] See Quarterly E-Commerce Report Historical Data, U.S. Census Bureau (last revised Feb. 22, 2021), https://www.census.gov/retail/ecommerce/historic_releases.html.

[5] See Combating Trafficking in Counterfeit and Pirated Goods, Dep't of Homeland Security (Jan. 24, 2020), https://www.dhs.gov/sites/default/files/publications/20_0124_plcy_counterfeit-pirated-goods-report_01.pdf.

[6] See id.

[7] See Guide to Managing Counterfeiting and Piracy Risks in the COVID-19 Era, Int'l Chamber of Commerce (Jul. 2020), <https://iccwbo.org/publication/guide-to-managing-counterfeiting-and-piracy-risks-in-the-covid-19-era/>.

[8] Section 337 Statistics: Percentage of Investigations with a Given Range of Numbers of Respondents by Calendar Year (Updated Annually), U.S. Int'l Trade Comm'n (Jan. 22, 2021), https://www.usitc.gov/intellectual_property/337_statistics_percentage_investigations_given.htm.