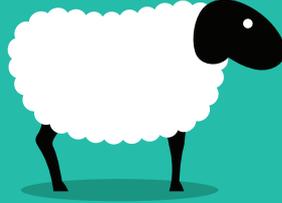
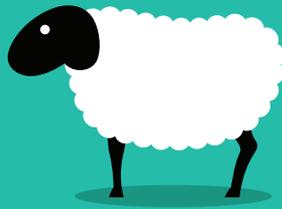
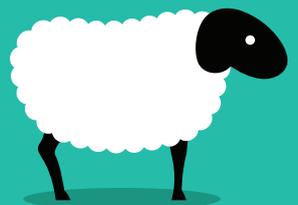
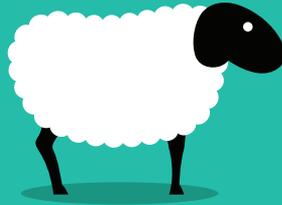


World
Trademark
Review™



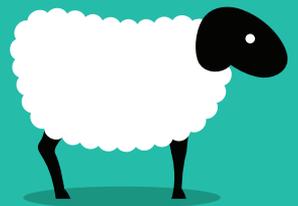
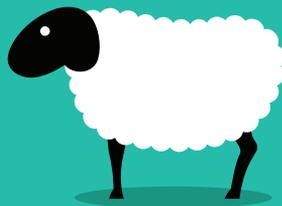
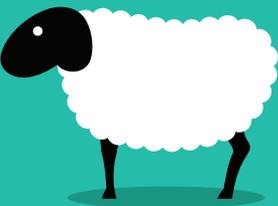
Anti-counterfeiting 2016 A Global Guide



Combating counterfeiting online: follow the money

Davis Wright Tremaine LLP

Roxanne Elings



Protecting client brands on a worldwide basis.



At Davis Wright Tremaine, we create, manage, and enforce trademark portfolios, and offer effective and innovative methods to combat counterfeiting and infringement. Our clients are in industries ranging from outdoor performance to fashion apparel, luxury goods to consumer electronics, health and beauty to entertainment. We understand how the Internet is shifting the counterfeiting paradigm, and we are at the forefront of developing strategies to address the new challenges confronting our clients. We invite you to learn more about how we can enhance and protect the trademarks that are critical to your business.

DWT.COM/TRADEMARK

Anchorage | Bellevue | Los Angeles | New York | Portland.
San Francisco | Seattle | Shanghai | Washington, D.C.



Davis Wright
Tremaine LLP

DEFINING SUCCESS TOGETHER

Combating counterfeiting online: follow the money

Author
Roxanne Elings

Counterfeiting allows criminals to make huge profits with little capital investment and little to no risk, making it far more attractive than other illegal activities such as narcotics. It makes sense, therefore, that an anti-counterfeiting programme which follows and confiscates those profits has the best chance of deterring counterfeiters. However, there are significant barriers to following the money trail as it wanders into territories with less developed laws on counterfeiting.

Follow the money – then

Follow the money was initially a strategy applied by the US government to the illegal drug trade. It was first applied to counterfeiting in the early 1990s, when the Mexican market was flooded with counterfeit shoes, half of them supplied by a retired baseball player named Byron McLaughlin, who lived just over the Mexican border near San Diego. McLaughlin had been a major league baseball player in the 1970s and early 1980s – he had pitched for the Seattle Mariners – but in the mid-1980s his career foundered and he started playing in the Mexican leagues. McLaughlin worked with a Korean company to manufacture counterfeit sneakers – Nike, Reebok, Converse, Vans and Adidas – for the Mexican market. In a good month he would sell around 80,000 pairs for about \$750,000. An injunction was obtained to freeze millions of dollars in US bank

accounts. That decision was appealed to the Ninth Circuit and the court issued a precedent-setting decision – *Reebok International, Ltd v Marnatech Enterprises, Inc* (970 F 2d 552 (9th Cir 1992)) – confirming the *ex parte* restraint of assets under the Lanham Act, noting that a court’s authority to order such injunctions lies in its equitable powers. The reasoning was later adopted by the Eleventh, Fifth and Second Circuits (see *Levi Strauss & Co v Sunrise Int’l Trading, Inc*, 51 F 3d 982, 986-87 (11th Cir 1995); *Animale Grp Inc v Sunny’s Perfume, Inc*, 256 F App’x 707, 709 (5th Cir 2007); and *Gucci America, Inc v Li*, 768 F 3d 122, 131 (2d Cir 2014)), and is still used widely today.

McLaughlin then secreted his profits outside the United States into numbered bank accounts at the Banque Internationale à Luxembourg (BIL). The lower court considered evidence suggesting that BIL assisted McLaughlin in removing money from his accounts in Luxembourg in violation of the court order freezing the defendant’s assets and found BIL in contempt of its order. BIL advised and McLaughlin followed the advice to obtain a Luxembourg court order directing BIL to release the assets to McLaughlin. However, the Ninth Circuit reversed the district court’s contempt finding against BIL. This was in part because Luxembourg’s banking laws conflicted with the restraining order. However, it was also because the court believed that while parties residing within



Rather than use payment processors which require moneys to remain, even for a short period, in reach of the United States, counterfeiters now more often exclusively offer methods of payment that are not easily traced or do not require US deposits

the United States can be subject to a court's jurisdiction, actively aiding and abetting a party to violate that order (even without other contacts in the forum) (see *Waffenschmidt v MacKay*, 763 F2d 711 (5th Cir 1985)) is not sufficient to extend jurisdiction beyond US borders, even where it has actual notice of the court's order.

The Ninth Circuit and the lower district court expressed opposing views on the jurisdictional issue. The district court established two reasons for applying *Waffenschmidt* to assert jurisdiction over the foreign bank. First, although BIL did not do business in the United States, "BIL purposefully entered into a banking agreement with [the defendant] and... accept[s] money from citizens of this country and of this state". Thus, the court held that the bank's activity in Luxembourg affected the forum. The court ruled that "personal jurisdiction over a non-party in a case such as this one may [be] found by construing the non-party's act of assisting in the violation of an injunction as a 'super-contact'." As a second reason for establishing jurisdiction, the court invoked its "inherent authority to enforce its own orders", arguing that litigation in the jurisdiction was foreseeable and did not offend notions of fair play and substantial justice. Although the Ninth Circuit acknowledged the idea of 'super-contacts' as applied to domestic non-parties, it reversed the district court's finding of jurisdiction. The Ninth Circuit noted that "[a]lthough *Waffenschmidt* speaks in expansive terms, it was speaking about the authority of district courts within the United States".

Follow the money – now

Today, counterfeiters are benefiting from the breakdown of international borders, evolving technology, globalisation and the move away from a cash economy. A professor at New York University, Damon McCoy, traced the moneys he paid using a Visa credit card in 300 different transactions when purchasing goods from counterfeit websites. According to McCoy, 97% of the payments traced back to three of the largest Chinese banks: the Bank of China, the Bank of Communications and the Agricultural Bank of China. This is not a new discovery. It has been well documented by documents obtained from several online counterfeiting cases that over 90% of proceeds from the sale of counterfeits online go back to China and Hong Kong.

In the 2010 case *The North Face Apparel Corp v Fujian Sharing Import & Export Ltd* (No 10-Civ-1630 (SDNY)), an asset restraint was obtained and served on US-based process server PayPal. Over \$2 million in assets was restrained and ultimately used to pay down the large judgments obtained. The strategies established in *Fujian* against online counterfeiting have been used across hundreds of cases and helped to interrupt business as usual for counterfeiters over the Internet by freezing multiple millions of dollars with US-based payment processors. While the *Fujian* strategy remains one of the most effective anti-counterfeiting tools available, counterfeiters have taken steps to reduce the risk of losing large sums of money. Rather than use payment processors which require moneys to remain, even for a short period, in reach of the United States,

counterfeiters now more often exclusively offer methods of payment that are not easily traced or do not require US deposits, including payment processors or banks based outside the United States or Western Union. Efforts to make Chinese banks accountable are, unsurprisingly, meeting stiff opposition from those banks.

Efforts to pursue the Chinese banks have been ongoing for six years in cases brought by Gucci and Tiffany in the Southern District of New York. In a 2013 letter, the Chinese Embassy in Washington complained to the US State Department about subpoenas served “time and again” on Chinese banks. The embassy wrote that demands to freeze assets and disclose information about accounts in China amounted to “wrongful acts that disrespect China’s sovereignty and laws”. Chinese regulators later warned that the issue could undermine US-Chinese relations.

Recently – after the matter was appealed to the Second Circuit, which confirmed the right to an asset seizure, but remanded to determine jurisdiction over the Chinese bank – the district court found that it did have jurisdiction over the Bank of China and could order it to produce documents showing the flow of moneys from the sale of counterfeit goods. The New York court had been trying to recover those records since 2011, when the judge first asked the bank to provide them. The Bank of China, a third party and not a defendant itself, maintained that it could not do so without violating China’s privacy laws. It also questioned the court’s jurisdiction over the non-party bank. However, it did eventually produce the records for the court. While it is unknown whether the documents produced by the bank – which are now six years old – will shed any light on the counterfeiters, the ability to obtain such documents is a welcome breakthrough for rights holders.

Meanwhile, on the side of criminal prosecution, in what seems to be a one-off effort by the US government back in April and May 2012, US Customs seized profits that had been sent back to the Chinese banks. As a result of investigations generated by the National IP Rights Coordination Centre-led Operation In Our Sites, US Customs, working

with the Department of Justice, seized over \$2 million in proceeds from online sales of counterfeit goods out of China in two separate cases. The funds were seized from correspondent bank accounts located at the Bank of China in New York under a provision of the then US Patriot Act (18 USC §981(k)), which permitted the US government to seize funds from a foreign institution’s interbank accounts in the United States for forfeiture to the Treasury. This was touted as the first use of Section 981(k) to seize illicitly derived proceeds identified as part of an IP rights criminal investigation deposited in a Chinese bank. When the Patriot Act expired, these provisions were replaced by the USA Freedom Act. However, there is no further information about this act having been used to combat



Roxanne Elings
Partner
roxanneelings@dwt.com

Roxanne Elings is a leading trademark and brand management attorney, concentrating on protecting brands on a worldwide basis and possessing significant experience in anti-counterfeiting and trademark infringement. She represents clients in the fashion apparel, luxury goods, consumer electronics, beauty and entertainment industries.

Ms Elings was ranked by the *WTR 1000* (2012 edition) as one of the top attorneys nationally in trademark prosecution, enforcement/litigation and anti-counterfeiting – the only attorney to receive top rankings in all three categories.

counterfeiting, even though counterfeiting has been increasingly linked to terrorism.

Other efforts to follow the money include the International Anti-counterfeiting Coalition's programme, which follows credit card transactions and then works with credit card companies (eg, Visa and MasterCard) to put pressure on the banks which have issued the cards. Websites offering counterfeits to consumers in the United States usually accept credit card payments. The payments are then funnelled to bank accounts outside the United States, often by way of financial institutions that have both a physical presence and permission to offer banking services in the United States, but that designate the relevant accounts as outside of US jurisdiction. Many would-be counterfeiters will not pursue counterfeiting operations unless they have some assurance that they will be able to hide the proceeds of their activity from the reach of law enforcement. If rights holders can effectively cut off counterfeiters' access to their profits, this can be a potent deterrent. The coalition touts the programme as having "terminated over 5,000 individual counterfeiters' merchant accounts, which has impacted over 200,000 websites".

The European Intellectual Property Office (EUIPO) (formerly the Office for Harmonisation in the Internal Market) maintains a follow the money approach, which tackles the revenue sources providing most suspected IP infringing websites with their financial lifeline, including support from online advertising. The EUIPO claims successes in "undermining the commercial profitability of illegal sites, such as the 'follow the money approach', targeting advertising revenues and payment intermediaries". Rights holders can also follow the money easily without confrontation by using records from US sources, such as PayPal. While most identification indicia of counterfeit websites are easily falsified, information regarding the source of money is more likely to be concrete, even if not always clear. Comparing these

records to other information can help to identify the source behind a counterfeiting enterprise.

Thus, even while a follow the money approach is not always easy – particularly when the money finds its way into countries with less developed anti-counterfeiting remedies – it is still a strong approach and remains one of the best hopes of making counterfeiting unprofitable.

Conclusion

It is important that courts and government authorities recognise the importance of stemming the flow of funds that drives trademark counterfeiting. As counterfeiters increasingly move their money outside the United States, rights holders should make efforts to follow it. While they are limited by the existing legal framework, there are multiple efforts to challenge that legal framework or to obtain cooperation from companies which participate in the flow of money. Without the ability to follow the money, the actual infringers will remain anonymous and free to continue their illicit business. Fortunately, recent developments are promising and will hopefully pave the way to keep enforcement options open to rights holders in the future. **WTR**



Davis Wright Tremaine LLP

1633 Broadway, 27th Floor
New York NY 10019-6708
United States

Tel +1 212 489 8230
Fax +1 212 489 8340
Web www.dwt.com