

Client Alert

A report
for clients
and friends
of the firm March 2006

The Stop Counterfeiting in Manufactured Goods Act

The Stop Counterfeiting in Manufactured Goods Act ("the Stop Counterfeiting Act" or "the SCA") signed by the President on March 16, 2006 significantly broadens the protection afforded to trademark owners against the importation and distribution of counterfeit goods. Supported by both parties in Congress, the SCA applies to a wide variety of industries, and was predicated on Congressional findings that (1) the manufacture and sale of counterfeit products has increased dramatically; (2) global technology has facilitated the escalation of counterfeiting into one of the world's most prevalent economic crimes and it reaches all industry sectors, including apparel, music, consumer goods, auto parts, electrical appliances, and pharmaceuticals; and (3) counterfeit products such as baby food tainted by additives or car parts manufactured with bogus components infringe valuable intellectual property rights, threaten jobs, harm the U.S. economy (through loss of tax revenues), and imperil health and safety.

One interesting aspect of the Stop Counterfeiting Act is its express recognition (after the 9/11 tragedy) that counterfeiting is often a preferred source of funding for terrorist organizations that frequently use the sale of bogus goods to raise and then launder money worldwide.

Amending the criminal counterfeiting statute, 18 U.S.C. Section 2320, the SCA closes an existing

loophole and provides the following increased protections:

- The SCA expands the definition of "counterfeit mark" which includes goods and services as well as labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging that is either applied to or used in connection with counterfeit goods. The additional language thus provides protection to a trademark owner from illicit packaging materials *even if they are not actually affixed to the goods*. This prevents counterfeiters from selling famous packaging to improperly mask inauthentic goods. This provision is in direct response to the Tenth Circuit Court of Appeals decision in *United States v. Giles*, 213 F.3d 1247 (10th Cir. 2000) which held there was no criminal liability for trafficking in counterfeit labels that were not affixed to the actual goods.
- The SCA requires the mandatory destruction of counterfeit goods and the mandatory forfeiture of assets linked to counterfeiting – a stiffer penalty than the prior law which provided only for discretionary destruction of counterfeit goods. The SCA also mandates the destruction of the equipment and materials used to make the counterfeit goods as well, which prevents pirates from resuming their trafficking.
- The SCA redefines "traffic" and "financial gain" to provide protection against any distribution – including importing and exporting – or intent to distribute counterfeit goods for purposes of

commercial advantage or financial gain and applies to actual and expected receipt of anything of value in exchange for counterfeit goods.

- The SCA heightens protection in the event a criminal conviction is obtained by allowing for mandatory forfeiture of the goods and mandatory restitution to the mark owner.

The Stop Counterfeiting Act thus closes important loopholes in the prior legislation (that required counterfeit labels to be affixed to goods) and expands the scope of protection and remedies available to the trademark owner. It is a welcome and overdue recognition of the pervasive and increasingly harmful effects of pirated merchandise.

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