citba.org
Customs and International Trade Bar Association

Quarterly Newsletter

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CITBA & Related News

UPCOMING PROGRAMS

JULY 31, 2013
CITBA "What's New at the Agency?" CBP Assistant Commissioner Allen Gina
Remarks from CBP's Assistant Commissioner Allen Gina regarding the CBP Office of International Trade's recent accomplishments, opportunities, and challenges.
Wednesday, July 31, 2013, 5:00 PM to 7:00 PM
Cassidy Levy Kent
2000 Pennsylvania Avenue, NW, Suite 3000
Washington, DC 10006

AUGUST 29, 2013 – AUGUST 31, 2013
Hellenic Branch, International Law Association
Conference on "Imperium Juris: Governance, Resources and Trade"
August 29, 2013 to August 31, 2013
Cape Sounion, Athens, Greece
Contact: Ms. Alessia Fiumi, webmaster@ilareginal2013.gr

NOVEMBER 19-20, 2013
U.S. Customs Compliance Boot Camp –American Conference Institute
Practical, nuts and bolts course covering the ins and outs of fundamental US Customs law topics, how to interact with and respond to US Customs and Border Protection, and apply the requirements to your real-life scenarios.
Time and venue to be determined.

FEBRUARY 27-28, 2014, GEORGETOWN LAW SCHOOL WASHINGTON, D.C.
International Trade Update
The program, aims to provide the most important new developments affecting the trade and Customs bars – and their clients – as well as critical interpretations of those developments by senior partners at law firms, top government officials, judges from the U.S. Court of International Trade, and corporate counsel who focus on trade and customs matters.

In this issue:

Links of interest:

CITBA Homepage

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US Customs and Border Protection

Bureau of Industry and Security

Office of Foreign Assets Control

International Trade Administration

US International Trade Commission

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NEW CITBA BOARD OF DIRECTORS

We are pleased to announce the new CITBA Board of Directors:

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Past CITBA Events

MAY 14, 2013, THE PRINCETON CLUB OF NEW YORK, NY
CITBA Annual Meeting
The meeting and reception provide an opportunity to reconnect and network with CITBA members and Judges of the CIT. The meeting also included the elections of the new CITBA Board of Directors, the outcome of which is listed below.

JUNE 25, 2013, BAKER & HOSTETLER, WASHINGTON, DC
CITBA Breakfast Briefing - DDTC Deputy Director
Daniel J. Buzby
Remarks from Daniel J. Buzby, Deputy Director, Office of Defense Trade Controls Compliance, Directorate of Defense Trade Controls, US Department of State on effective lawyering in representing clients before DDTC. Hosted in cooperation with the DC Bar International Law Section and ABA Section of International Law's International Trade Committee.

ANNOUNCEMENTS

News from the Clerk of the Court of International Trade
By: Stephen Swindell and Scott Warner*

New Judges. The Clerk's Office welcomed two new additions to the Court's bench, Judge Mark A. Barnett and Judge Claire E. Kelly. These appointments fill the vacancies left by Judge Evan J. Wallach's departure to the Court of Appeals for the Federal Circuit and Judge Judith M. Barzilay taking Senior Judge status. Both judges were commissioned by President Obama on May 28, 2013. Chief Judge Donald C. Pogue swore in Judge Barnett on June 17th and Judge Kelly on June 11th. There will be investiture ceremonies for the judges in the future.

Amendments to Filing Fees
On May 1st, Rule 3, the Schedule of Fees and Specific Instructions to Forms 1, 2, 3 and 4 of the Rules of the Court were amended to reflect changes in filings fees. These amendments stemmed from an increase in the miscellaneous fee schedule for the district courts.

The filing fee for a summons filed under 28 U.S.C. § 1581(a) increased from $150 to $175 while the filing fee for an 28 U.S.C. § 1581(d)(1) action increased from $25 to $35. The filing fee for actions other than 28 U.S.C. § 1581(a) or (d)(1) increased from $350 to $400.

**Stephen Swindell is the Supervisor and Scott Warner is the Operations Manager for Case Management at the Court of International Trade.*

FEDERAL CIRCUIT AND CIT CASE SUMMARIES

By: Claudia Burke & Stephen Tosini*

Federal Circuit Rejects Equal Protection Challenge to Differences in Tariff Rates on Imports of Men's and Women's Products. *Rack Room Shoes v. United States* [Clevenger, Moore, *Reyna*, JJ]. On June 12, 2013, the Court of Appeals for the Federal Circuit affirmed the dismissal by the Court of International Trade (CIT) of three test cases challenging the constitutionality of the Tariff Schedules of the United States. The Federal Circuit rejected the importers' contentions that differences in duty rates based on the gender of the ultimate user violated the equal protection clause. There are over 170 cases stayed at the CIT pending the resolution of these test cases.

Federal Circuit Affirms Calculation of Antidumping Duty Rate for Plastic Bags from Thailand. *KYD, Inc. v. United States* [Newman, Plager, O'Malley, J.J.] [*per curiam*]. On May 29, 2013, the Federal Circuit affirmed a CIT judgment sustaining the Department of Commerce's (Commerce) calculation of the antidumping rate for plastic bags from Thailand. KYD, Inc., an importer, primarily challenged Commerce's application of an adverse antidumping duty rate to its imports. The rate was adverse due to the Thai bag producers' failure to cooperate in the administrative review. KYD maintained that it had cooperated with Commerce and thus, was entitled to its own rate separate from that of the uncooperative Thai producer. The Court rejected this contention, holding that importers are legally responsible for paying the assessed duties associated with the goods they import.

Federal Circuit Grants Government's Motion to Remand Appeal for Consideration of Fraud Allegations Involving Chinese Exporter. *Ad Hoc Shrimp Trade Action Committee v. United States* [Lourie, Plager, Taranto, J.J.] [*per curiam*]. On May 24, 2013, in an unpublished decision concerning an emerging area of trade law, the Federal Circuit remanded an administrative review of an antidumping duty order covering warm water shrimp from China to consider new allegations, stemming from Commerce's findings in a subsequent review that the Chinese exporter had provided false information to Commerce. The Court rejected the exporter's contention that, to obtain a remand, the Government was required to offer clear and convincing evidence sufficient to make a *prima facie* showing of fraud, emphasizing that Commerce has inherent authority to protect the integrity of its proceedings and heightened standard of proof was unnecessary to exercise that authority.

Federal Circuit Vacates Court Of International Trade Decision That Had Sustained The Calculation Of An Antidumping Duty Rate For An Individual Chinese Producer Of Fabric Ribbons. *Yangszhou Bestpak Gifts & Crafts Co., Ltd. v. United States* [*Rader*, Mayer, Prost, JJ.]. On May 20, 2013, the Federal Circuit vacated the CIT's judgement sustaining Commerce's calculation of an antidumping duty rate for fabric ribbons produced by an individual Chinese manufacturer. As part of this calculation, Commerce had averaged rates assigned to two other producers that had been selected by Commerce as mandatory respondents during the administrative proceedings. One of these producers received a *de minimis* rate, while the other failed to cooperate and received a 247 percent margin based on a set of adverse inferences. The Federal Circuit concluded that averaging a *de minimis* rate with a rate based on adverse inferences could be a permissible way to establish the estimated margin for producers that were not individually investigated by Commerce, but the administrative record did not support Commerce doing so in this case. The Federal Circuit therefore vacated the CIT's decision on this ground and remanded the matter for further consideration. At the same time, the Federal Circuit affirmed the CIT's decision not to entertain plaintiff's claim that Commerce should have determined plaintiff's economic reality by relying on plaintiff's invoice, holding that plaintiff failed to properly exhaust that argument.

Federal Circuit Vacates and Remands to Customs for Explanation of Its Interpretation of Certificates of Origin Requirement.
Ford Motor Company v. United States, No. 2012-1186 [Prost, *Reyna*, JJ] [Newman, J., dissent]. On May 3, 2013, the Federal Circuit vacated and remanded the CIT's decision for Customs to provide a new explanation of its interpretation of the regulations that govern certificates of origin. The North American Free Trade Agreement (NAFTA) and its implementing statute (19 U.S.C. 1520(d)) allow qualifying goods to enter the United States duty free if, among other things, an importer files a valid certificate of origin. Importers may make these claims after importation and receive a refund if the claim is made within one year. Customs regulations allow it to waive the requirement for a certificate of origin under certain circumstances. Customs also may waive the requirement as part of a "reconciliation program." In this case, Customs did not waive the requirement for Ford's

entries but did waive the requirement for participants in the reconciliation program. The Court held the two interpretations of the statute and regulations to be inconsistent and remanded for Customs to provide a reasonable explanation for the different interpretations. The dissent stated that Customs' interpretation was unreasonable and that, as a result, the certificates of origin should have been timely filed.

Federal Circuit Affirms Court of International Trade's Holding That Customs Properly Classified Ugg Classic Crochet Boots as Footwear of the Slip-On Type. *Deckers Outdoor Corp. v. United States*, No. 2012-1411 [*Mayer*, Reyna, JJ] [Dyk, J, dissent]. On May 8, 2013, the Federal Circuit affirmed the CIT holding that Customs properly classified Ugg® Classic Crochet® boots in subheading 6404.19.35 as footwear of the slip-on type. Deckers argued that the boots should have been classified in subheading 6404.19.90, a basket provision for footwear with rubber outer soles and textile uppers because subheading 6404.19.35 is limited to shoes and the merchandise was pulled on, not slipped on, to the foot. Deckers further contended that the industry never considers boots to be slip-ons. The majority reviewed the plain language of the statutory provision and found its use of the word footwear to include both shoes and boots. The majority also noted that a long-standing Treasury Decision (TD 93-88), defining slip-on as including a boot that must be pulled on, supported this interpretation of the statute and that Customs had consistently classified boots without laces or other fasteners in accordance with TD 93-88. The dissent adopted Deckers' argument that if Congress had meant for subheading 6404.19.95 to cover all footwear it would have omitted the phrase "of the slip-on type" from the provision. The dissent also concluded that "footwear of the slip-on type" excludes boots because industry references define slip-on as a shoe not a boot. A petition for rehearing *en banc* is pending.

The Federal Circuit Sustains Commerce's Continued Use of "Zeroing" in Antidumping Administrative Reviews. *Union Steel v. United States* [Lourie, Plager, *Wallach*, J.J.]. On April 16, 2013, the Federal Circuit sustained Commerce's continued use of its controversial practice of "zeroing" in antidumping administrative reviews. Zeroing has the effect of increasing dumping margins because dumped sales are not offset by non-dumped sales. Because Commerce discontinued zeroing in antidumping investigations in order to comply with a decision of the World Trade Organization, the Federal Circuit previously remanded cases for Commerce to explain its interpretation of the statute as permitting zeroing in reviews. In this case, the Court agreed with Commerce that the methodological differences between how dumping is determined in investigations and in reviews supported Commerce's practice.

Federal Circuit Holds that Customs Correctly Classified Engineered Hardwood Flooring as Plywood. *Kahrs International, Inc. v. United States* [*Reyna*, Lourie, Krieger, JJ]. On April 3, 2013, the Federal Circuit affirmed the decision of the CIT dismissing this action, which had sought re-liquidation of imported engineered hardwood flooring (EWF) under the duty-free tariff classification provision for builders' joinery and assembled parquet panels. The Court held that the EWF is properly classified as plywood, which carries an eight percent duty rate. The Court further rejected Kahrs's contention that the commercial meaning of plywood excludes EWF panels because of the use of, and additional features added to, the panels. Rather, the Court reasoned that the term plywood covers all plywood regardless of use, and any features added to Kahrs's product were not sufficiently significant to transform the EWF into another good. The Court also rejected the view that, even if the EWF were *prima facie* classifiable as plywood, EWF is more specifically identified as assembled parquet panels or other builders' joinery. Lastly, the Court explained that its decision is supported by the Explanatory Notes to the Harmonized System, and an agency ruling.

Court of International Trade Remands Final Results of the Sixth Administrative Review of the Antidumping Order on Certain Frozen Fish Fillets from Vietnam. *Catfish Farmers of Am. v. United States* [Musgrave, J.]. On May 23, 2013, the CIT remanded Commerce's final results for reconsideration and further explanation of several issues, including issues for which the Government had sought a voluntary remand. In cases involving imports from a non-market economy country (such as Vietnam), Commerce determines antidumping margins by comparing United States prices of imported merchandise to a normal value derived from the factors of production calculated in a surrogate, market-economy county or countries. Plaintiffs, domestic catfish farmers and processors, challenged Commerce's selection of Bangladesh as the primary surrogate country, and also challenged various surrogate value determinations relating to individual inputs. The Court held that many of Commerce's determinations, including the selection of Bangladesh as the primary surrogate country, were unclear, not adequately explained, and/or were based upon an incomplete analysis of contrary evidence in the administrative record.

Court of International Trade Denies Motion to Dismiss Government's Complaint under Compulsory Counterclaim Rule. *United States v. Tenacious Holdings, Inc.* [Carman, J.]. On May 15, 2013, the CIT denied Tenacious's motion to dismiss the Government's complaint, which seeks civil penalties and lost duties stemming from Tenacious's allegedly negligent misclassification of imported gloves. Tenacious contended that the Government's affirmative civil action should be dismissed because that claim was a compulsory counterclaim that must be asserted in Tenacious's previously initiated challenge to CBP's classification of the same gloves. In denying the motion, the Court noted that this case involves "a perfect storm" because, under the rule for initiating classification challenges, Tenacious's suit had been validly initiated by the filing of a summons only, and Tenacious had not filed a complaint by the deadline for the Government to file its own affirmative action. In this situation, the Court concluded that the Government did not file its lawsuit to open parallel litigation and engage in gamesmanship that the compulsory counterclaim rule was designed to eliminate.

Court of International Trade Grants Domestic Producer's Rule 59 Motion for Rehearing Based upon an Intervening Appellate Decision. *Nan Ya Plastics Corp. of America v. United States* [Carman, *Stanceu*, Gordon, JJ.]. On May 10, 2013, a three-judge panel of the CIT partially granted Nan Ya's Rule 59 motion for rehearing of the CIT's earlier dismissal of a complaint challenging the government's denial of Nan Ya's claim for a share of antidumping duties distributed pursuant to the Continued Dumping and Subsidization Act of 2000 (CDSOA, also known as the "Byrd Amendment" now repealed). To qualify for CDSOA distributions, domestic producers must have successfully petitioned the government – or expressed support of (by checking a box on a government questionnaire) successful petitions – for the issuance of antidumping or countervailing duty orders against unfairly traded imports. In its complaint, Nan Ya primarily contended that the CDSOA's "support" requirement was unconstitutional. One day after the CIT dismissed Nan Ya's complaint, the Federal Circuit issued a precedential decision in *PS Chez Sidney v. USITC*, 684 F.3d 1374 (Fed. Cir. 2013), holding that a domestic producer that had expressed support for an antidumping petition in a *preliminary* phase questionnaire, but that did not continue to express support in the *final* phase questionnaire, qualified for CDSOA distributions. Holding that *PS Chez Sidney* was an intervening change in the controlling law, the CIT vacated its judgment and allowed Nan Ya to amend its complaint to allege that it had expressed preliminary support of the petition.

Court of International Trade Sustains Adverse Facts Available Rate in Countervailing Duty Determination Concerning Hot Rolled Steel from India. *Essar Steel Ltd. v. United States* [Barzilay, S.J.]. On April 9, 2013, the CIT sustained Commerce calculation of an adverse facts available countervailing duty rate for Essar Steel, an Indian steel producer. During the administrative proceedings, Essar repeatedly denied that it had a facility in the Chhattisgarh state, an Indian state that offered countervailable subsidies to manufacturers. After learning that Essar in fact had a facility in Chhattisgarh, Commerce applied adverse facts available and assessed a countervailing duty. In 2010, the Court required Commerce to reopen the administrative record to include documents from a later proceeding demonstrating that Essar had applied for, but been denied, subsidy benefits for that facility. The Government appealed, and in 2012, the Federal Circuit held that the CIT had erred in ordering Commerce to reopen the administrative record, noting that, to allow a foreign producer a second chance to place documents on the record after receiving an onerous adverse facts available rate would encourage foreign producers to game the system by selectively choosing which data to report to Commerce. On remand from the appellate Court, the CIT rejected Essar's argument that the adverse facts available rate was inconsistent with commercial reality, holding that the lack of information regarding subsidy benefits was Essar's fault.

Court of International Trade Denies Preliminary Injunctions in Challenges to Antidumping and Countervailing Duty Orders on Wind Towers from China and Vietnam. *Wind Tower Trade Coalition v. United States* [Gordon, J.]. On March 29, 2013, the CIT denied requests for preliminary injunctions and dissolved the temporary restraining orders in three joined matters challenging the effective dates of Commerce's antidumping and countervailing duty orders covering wind towers from China and Vietnam, because the domestic industry had failed to show a fair likelihood of success on the merits. The statutes governing the effective dates for Commerce's orders, and the corresponding treatment of duties collected provisionally during Commerce's and the International Trade Commission's (ITC's) investigations in trade matters, depend on the type of injury to the domestic industry that the ITC finds in its final vote. The WTTC asserted that Commerce had misapplied the statutory provisions to the fragmented ITC voting pattern regarding wind towers and, as a result, that preliminary relief was necessary to prevent Commerce from ordering refund of the provisional duties and thereby mooting the case. The Court, however, held that Commerce had interpreted the statutes reasonably and had not evinced a contrary practice consistent with the plaintiff's interpretation. The Court also found that the "balance of the hardships" and "public interest" factors militated against injunctive relief.

Court of International Trade Awards Maximum Civil Penalty for Customs Fraud. *United States v. Callanish Ltd*. [Stanceu, J.]. On March 28, 2013, the CIT awarded the United States a default judgment of $9,943,249.12 , the maximum amount permitted by law, against Callanish Ltd., a Scottish corporation. Callanish engaged in a fraudulent scheme to import evening primrose oil (EPO) at a time when it was banned in the United States. Pursuant to 19 U.S.C. § 1592(c)(1), (e), the civil penalty cannot exceed the domestic value of the merchandise that was fraudulently entered. Because there was no domestic market for EPO, an illegal product, Customs appraised the merchandise based on its landed cost, under the presumption that the importer would not have sold the merchandise for less than what it cost to import it. The Court found the appraisal to be reasonable, lawful, and sufficient. Although the Court possesses discretion under the statute to award an amount less than domestic value, the Court awarded the maximum penalty, having found the aggravating factor of a fraudulent scheme to circumvent controls intended to protect public health and safety, and no mitigating circumstances.

Court of International Trade Rejects Constitutional Challenge to Newly-Enacted Trade Legislation Relating to Countervailing Duties. *Guangdong Wireking Housewares & Hardware Co., Ltd. et al. v. United States* (Ct. Int'l Trade) [Tsoucalas, J.]. On March 12, 2013, the CIT dismissed a constitutional challenge to a statute (Pub. L. No. 112-99, 126 Stat. 265 (March 13, 2012)) enacted by Congress in response to a December 2011 decision by the Federal Circuit. The Federal Circuit had held that Commerce lacked authority to apply countervailing duties against subsidized imports from non-market economy countries, including China. The plaintiffs, Chinese producers of kitchen appliance shelving, challenged the new statute on constitutional grounds, contending that the retroactive effective date violated the *Ex Post Facto* clause of the Constitution, as well as the due process and equal protection guarantees of the Fifth Amendment. The CIT rejected these assertions, holding that, even if the new law were a retroactive change in the law as opposed to the "clarification" advanced by the Government, plaintiffs had failed to demonstrate that the legislation was punitive or that it lacked a rational basis.

Court of International Trade Dismisses Domestic Producers' Challenge to Denial of CDSOA Distributions. *Giorgio Foods, Inc. v. United States* (Ct. Int'l Trade) [Stanceu, J.]; *Koyo Corp. of USA v. United States* (Ct. Int'l Trade) [Gordon, J.]. On March 6 and 13, 2013 respectively, the CIT dismissed complaints seeking CDSOA distributions. Under the CDSOA, CBP distributes collected antidumping and/or countervailing duties to only qualifying domestic producers that were either petitioners or had publically supported antidumping and countervailing petitions that resulted in an antidumping or countervailing duty order. Plaintiffs had not supported any of the relevant antidumping petitions. The Court dismissed First Amendment and Fifth Amendment equal protection challenges to the "support requirement," holding those arguments foreclosed by the Federal Circuit's decision in *SKF USA, Inc. v. U.S. Customs and Border Protection*, 556 F.3d 1337 (Fed. Cir. 2009). The Court also dismissed claims that the support requirement was impermissibly retroactive in violation of the Fifth Amendment due process guarantee and that the domestic industry was unjustly enriched.

Claudia Burke and Stephen Tosini are attorneys with the Department of Justice, Civil Division, National Courts Section.* ***These summaries are not a document of the U.S. Department of Justice, nor does it represent the official views of the Department of Justice.*

Feature Articles

The International Customs Law Academy: Promoting International Professional Exchange and Scholarship on Customs and International Trade Law

By Patrick C. Reed*

Since 2009, CITBA has been in regular liaison with the International Customs Law Academy (ICLA), or in Spanish the *Academia Internacional de Derecho Aduanero*. The ICLA is an international scholarly society headquartered in Mexico and devoted to the study of Customs and international trade law. Its mission is to promote the study of Customs and international trade law by organizing conferences, meetings, and seminars; publishing conference proceedings and papers; facilitating international exchanges of ideas among authorities in different countries; and developing the subject of comparative Customs and international trade law.

The ICLA grew out of interactions among Customs and international trade lawyers in Latin America. Its principal activity has been to organize a series of annual professional education conferences now known as the World Meeting of Customs Law. The presenters at these conferences include practicing lawyers, government officials, judges, and university and law school professors.

The conferences began in 2005 and were originally called the Ibero-American Customs Law Meeting. The first conference was held in Guadalajara, Mexico, the second in 2006 in Montevido, Uruguay, and the third in 2007 in Barcelona. Spain. At the Barcelona conference the decision was made to establish the ICLA as an incorporated scholarly society. The fourth conference, now entitled the World Meeting of Customs Law, took place in Cartegena, Colombia, in 2008.

After the Cartegena conference, and under leadership of its dynamic president, Andrés Rohde Ponce, a Mexican lawyer, the ICLA began to reach out to like-minded organizations in the elsewhere in the world. These efforts led him to CITBA in the United States. Ultimately, CITBA's then-president, Patrick Reed, represented CITBA as a participant in the Fifth World Meeting of Customs Law, held in Lisbon, Portugal, in 2009. The next World Meeting of Customs Law was held in Belo Horizonte, Brazil, in 2010. The program included a paper on C-TPAT co-authored by then-professor Claire Kelly and Suzanne Offerman of Baker & McKenzie, which Ms. Offerman presented at the conference.

For 2011, the Academy wanted its conference to include a panel composed of judges in various countries responsible for judicial review in Customs and international trade cases. Through CITBA's good offices, the ICLA contacted the US Court of International Trade. Judge Restani accepted the invitation to give a presentation about the Court of International Trade at the Seventh World Meeting of Customs Law in Buenos Aires, Argentina, in August 2011.

The most recent World Meeting of Customs Law took place in Cancún, Mexico, in August 2012. Again through CITBA's good offices, the ICLA invited a Judge of the Court of International Trade to be a presenter. Judge Gordon accepted the invitation and gave a presentation on Customs and international trade litigation in the era of electronic technology. In addition, Patrick Reed attended both the Buenos Aires and Cancún meetings as CITBA's representative.

The ICLA's next and Eighth World Meeting of Customs Law will be held in Brussels at the headquarters of the World Customs Organization (WCO), on September 4, 5, and 6, 2013. The topic will focus on the WCO, WCO treaties, and their contributions to Customs law harmonization, trade facilitation, capacity-building, revenue collection, and national security.

The ICLA is at the exploratory stage of considering holding its 2014 World Meeting of Customs Law in New York City.

Although the ICLA name uses the term "Customs law," its area of interest actually encompasses what in the United States is called Customs and international trade law. Thus, while conference presentations include Customs law in the narrow sense of matters within the jurisdiction of Customs and Border Protection, they are not limited to that topic. Instead, they also include antidumping and countervailing duty law, other trade-remedy laws, export controls, other laws regulating imports and exports, World Trade Organization law, and international preferential free-trade or trade-promotion agreements. Nevertheless, in view of the importance of traditional Customs classification and valuation issues in the import laws of many Latin American countries, Customs issues represent a significant portion of the topics at the annual conferences.

Besides sponsoring the annual conferences, the ICLA maintains institutional continuity by electing permanent Members (*Miembros de Número*, a title that should perhaps translated as Fellows). All the permanent Members have given presentations at the various annual conferences and have significant publications in the field, as well as having taught university or law school classes on the subject. There are approximately seventy permanent Members at present. Most are from Latin American countries, but some are from the United States and several European countries. As for the ICLA's administrative structure, Mr. Rohde remains president and principal moving force, and the organization has an eleven-member Board of Directors or *Junta Directiva* with members from Argentina, Chile, Colombia, France, Germany, Mexico, Spain, Uruguay, and the USA (Patrick Reed). The ICLA's website, which is partially still under construction, is www.customslawacademy.org.

Any CITBA members interested in the ICLA in general, or in the September 2013 conference in Brussels specifically are invited to contact Patrick Reed (pcr@simonswiskin.com).

**Patrick C. Reed is Of Counsel at Simons & Wiskin. He is also a Research Fellow at the Weissman Center for International Business, Baruch College.*

A Historic and Comparative Look At Europe's And The United States' Approach To Stopping Online and Crossborder Counterfeiting

By Alex Felce*

Counterfeit goods are estimated to deprive the global economy of about $200 billion dollars annually. In the auto industry, massive amounts of counterfeit products emerge from China and India. These massively produced counterfeit products illegitimately bear a trademark which stands for a certification of safety, or a mark which represents a certain level of quality. Consumers who rely on these marks often end up buying sub-par products which do not perform to the expected

standards or which even injure the user. Widespread reports of exploding counterfeit batteries in children's toys, remotes and cell phones have emerged in countries ranging from Vietnam to Canada and the Netherlands. These situations leave the aggrieved buyers with an unusable product, or even injuries, while giving them no realistic means for recovery. For instance, in *Ashworth v. Albers Med., Inc.*, 410 F. Supp. 2d 471 (S.D.W. Va. 2005), a consumer, who bought counterfeit tablets of a cholesterol-reducing drug, did not have a viable breach of warranty or strict liability claim against the proper drug manufacturer since the counterfeit product was not created by them. Similarly, right-holders not only suffer from missing these possible sales and market opportunities, but also experience damage to their reputation, associated goodwill, and brand value.

THE UNITED STATES APPROACH

In regards to counterfeit imports, the Customs service is not in the habit of routinely informing itself regarding the intellectual property rights of others in order to check for infringing products. Rather, the person seeking to enforce the right carries the burden of showing that the item is under protection and providing the date, place, origin, manner of shipment, and identifying features of the shipment in question. This burden allocation is similar in all member states subject to the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), as the minimum standards for the procedures in Article 51-58 of TRIPS initially place these burdens on the party seeking enforcement. Parties with trademark and copyright protection may experience much difficulty meeting this burden and are left with the options of either abandoning their pursuit or absorbing additional expenses and hiring private investigators to determine the needed information. Yet, failure of a trademark owner to prosecute third-party infringers may lead to the gradual erosion of a mark and has been characterized by some courts as evidence of abandonment.

In addition, the minimum standards set up in TRIPS and incorporated in the United States require the right-holder to show prima facie evidence of infringement so that the goods may be seized. This is especially difficult for copyright holders who are facing the importation of pirated copies which are physically identical. In *Adobe Sys., Inc. v. Tilley*, (N.D. Cal. Jan. 19, 2010), the counterfeited logo and copyrighted software were identical to the original. Although a copyright holder should presumably know what shipments it has coming into a country, these situations can be further complicated where the holder uses a wide distribution network and cannot reasonably be expected to know whether a shipment comes from authorized distributors, resellers, or are in fact infringing products. Finally, even if this burden is met, the courts may not have personal jurisdiction over the violator; limiting the right-holder's remedies to the destruction of the goods or removal of the infringing mark for that single shipment. Similarly, even if personal jurisdiction is available in a different nation, this does not alleviate the burdens of a right holder seeking enforcement and does not guarantee that the infringer's nation will impose the same liability or criminal sanctions to the counterfeiting party.

Assuming that domestic courts do obtain personal jurisdiction over the defendant, the right-holder still has to satisfy the requirements of a preliminary injunction. As a result, the right-holder must show the likelihood of the success on the merits, irreparable injury, and that the hardship to the right-holder would be greater than the harm to the accused infringer if the right-holder is incorrect. Additionally, in order to avoid such harm the right-holder may be required to post a bond in the case of error, which may function as a disincentive for right-holders to pursue their claims.

In the context of online counterfeit goods, the burden still lies with the right-holders who lose around $30 billion dollars of revenue annually to the sale of counterfeit goods online. The government takes a protective position regarding the role of the site operators that allow goods to be sold online (web-retailers), the concept of contributory negligence, and the duty owed to right-holders. However, courts will inadvertently be more lenient on web-retailers due to the fact that these site operators never take physical custody of the goods and often lack the knowledge and expertise required to identify a fake. As such, according to *Tiffany (NJ) Inc. v. eBay Inc.,* this duty is no more than the "reasonable measures" standard. This standard is determined by the circumstances of the case and will protect a web-retailer so long as the retailer did not have any specific knowledge regarding the infringement. As a result, right-holders or consumers must dig through the various listings and inform the web-retailer as to any infringing goods before the web-retailer can incur any liability through specific knowledge. Further, the right-holders would have to show that the web-retailer provided the means to effectuate the transaction, and did nothing to prevent the same. Nonetheless, as was the case in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996), web-retailers need to take precautions so that inaction is not construed by a court as willful blindness. Thus, much of the policing of the online market place falls on the right-holders while largely immunizing the web-retailers providing the means. Although burdensome, this result can be justified by the fact that the right-holder is in the best position to authenticate items and often the authentication process is a trade secret with which the right-holder will likely not want to part.

Nonetheless, web-retailers are stakeholders in the battle against counterfeits as well. It is through an established expected level of product authenticity that customers gain the confidence to purchase through web-retailers. Thus, increased efforts from web-retailers and expansive levels of protection for customers will lead to higher profits for the site operator. Many web-retailers have recognized this and have implemented active monitoring, anti-counterfeiting policies and even technology to filter infringing listings. This is a benefit which is also of interest and would benefit the individual sellers on the web-retailers page. In addition, the web-retailers can expect that the amount of complaints it will have to deal with will decrease significantly, thereby allowing them to spend valuable resources on other aspects of the company. Aside from the increased purchases, a web-retailer can gain from an enhanced goodwill association with its services through its preemptive efforts to prevent counterfeit products rather than a hindsight reaction to counterfeited goods after their insertion to the market.

Yet while many of the consumers that purchase counterfeit products are victims, others are aware purchasers who willingly acquire a counterfeit product and contribute to the problem. A solution that has been suggested and may begin to be implemented within the United States is the criminalization of the willful purchase of counterfeit products. In other cases, the innocent buyers who are injured or unhappy with their purchase are left with the familiar hurdle of personal jurisdiction. Buyers are then faced with the difficult choice of either giving up on the suit, or incurring additional expenses and suing the seller in their home nation.

Finally, the United States government retains an interest in addressing the counterfeiting problem. Counterfeiting costs the government in the form of law enforcement, Federal Trade Commission complaints, and loss of valuable tax revenues. In addition, the government retains an interest in protecting the general public against the harms of counterfeit goods, and to diminish the growth of organized crimes and terrorist organizations trafficking in counterfeit goods. To further boost the economy, the government has an interest in providing reliable e-commerce to consumers for a stimulated response.

One of the most relevant issues dealing with these identified interests is whether or not the U.S will benefit from an Online Commerce Certification Act, expansive safe harbors to the Lanham Act, and the legal effects of the recently-defeated senate bill, “The Combating Online Infringement and Counterfeits Act” (COICA) and its new rewritten version, the “Protect IP Act.” Historically, the United States government follows an economic theory approach to the issue and seems to employ a laissez faire mentality to regulation. Although not one universal approach has been suggested to further protect the aforementioned interests, many agree that the current legal regime does not adequately protect them.

Much of the government’s influence over the behavior of infringers, consumers, and contributors can be established through the use of criminal law. The approaches to criminal law differ greatly, and in the United States they emerge from pre-existing notions of property law. To this end, the general bundle of property rights includes “the right to preserve the integrity of a good, and to control who uses it at what time and in what location” as a result counterfeiting goods is sometimes analogized to conversion or vandalism. Criminal penalties differ according to the type of IP right violated, with copyrights and trademarks being considered “soft” IP rights.

Historically, the interstate transportation of stolen goods, in accordance with the National Stolen Property Act (NSPA), did not include within its purview counterfeit products. In regards to the willful importation of counterfeit goods, the legislature has added the words “transmits” to the NSPA which courts have interpreted to include the transfer of electronic documents and stolen software. Similar legislation has, throughout time, expanded the scope of criminal law in relation to copyrighted goods. In a brief summary; the first inception of criminal sanctions was enacted by congress in 1897, the Copyright Act of 1907 extended criminal liability, The Sound Recording Act of 1971 extended protection to audio recordings, the Piracy and Counterfeiting Amendments Act restructured criminal sanctions, the Copyright Felony Act of 1992 imposed felony penalties for willful violations of computer software, and the No Electronic Theft Act removed the requirement that infringement be for financial gain. The marked movement through the Copyright Damages Improvement Act of 1999 and the Enforcement of Intellectual Property Rights Act of 2008 has been to increase the criminal penalties for these violations. Recent cases have resulted in lengthier prison sentences circulating around the 2 year mark for the sale of copyrighted software ranging from $100,000-$250,000.

In regards to trademarked goods, criminal sanctions were not available until the Trademark Counterfeiting Act of 1984 (TCA) which criminalized the willful trafficking of counterfeit goods or services. In addition, the Stop Counterfeiting in Manufactured Goods Act (SCIMGA) added categories of infringement that were not covered within the scope of the TCA, such as the selling of counterfeit labels and packaging for infringing products. However, criminal statutes are only available in a small amount of trademark infringement cases in which a counterfeiter uses an “identical” or “substantially indistinguishable” mark. This leaves out of the criminal law’s scope many willful violations of trademark law even when they result in the dilution of the mark, or diminish its value. Nonetheless, much of the detection of these violations relies on the private enforcement through the right-holder in civil litigation before ever making its way into the criminal context.

Both of these “soft” IP rights have also been added to the types of trafficking prohibited, and falling within the scope of the Racketeer Influenced and Corrupt Organizations (RICO) Act. What is clear when analyzing the current climate of U.S law is that much of the burden of establishing a claim and enforcing a right lies with the right-holders. As a result, much of the criticism of the U.S. approach to these rights is that it overburdens solely one of the identified stakeholders to counterfeit products while providing no meaningful legal obligations or deterrence for others.

THE EUROPEAN APPROACH

In the European Union (EU), the burdens are apportioned differently among the stakeholders when battling counterfeits. In regards to blocking counterfeit imports, the legal landscape is determined largely by EU regulation 1383/2003 and national law. The customs authorities have hundreds of offices and employ thousands of employees for the purposes of monitoring incoming shipments. As such, they are a valuable source of information for rights-holders and the legal means to stopping infringing goods. As in the United States, the custom authorities can decide to seize goods of their own accord. However, the right-holders chances of catching the infringing products increase dramatically when seeking the aid of the custom services.

In order to acquire the aid of the customs service, a right-holder must apply for a customs seizure action. In an application, the right-holder must provide all the relevant trademark registrations, the goods covered under the trademark, information to help distinguish genuine goods from counterfeits, a point of contact, a declaration that the customs authorities will be compensated for the storage and transportation costs, and if possible, a description and picture of the genuine goods and their packaging as well as a picture of the counterfeit goods and their packaging. In addition, any sort of counterfeit good that infringes on any IP right may be seized. As such, the regulation applies to trademarks, patents, copyrights, geographic indicators and plant breeder's rights. Right-holders can apply to have protective coverage within any of the 27 member states, choose among several, or seek protection in all member states. The only required fee for the right-holder is to reimburse the customs authorities for the costs of storage, transport, or destruction of the goods. In Germany, a right-holder may even recover these costs from the infringer including attorney's fees for sending cease and desist letters. A right-holder can seek protection from any member state falling within the scope of the protected trademark, whether it be a national trademark, international trademark, or community trademark registration. These applications last for one year and can be renewed indefinitely as long as the right-holder is still protected under registration.

Subsequent to the application, the custom authorities will monitor incoming shipments for infringing products. If any are found, customs will provide the right-holder with the information of the importer, the quantity and value of incoming goods, and even a sample of the infringing goods if requested. After this point, the right-holder can initiate a destruction proceeding if consent from the infringer is acquired or when consent is assumed after the failure of the infringer to expressly oppose the destruction of the goods. Similarly, a court proceeding will be initiated if the infringer opposes. Once goods are determined to be counterfeit, they are not allowed to be exported, re-exported, removed from customs territory, placed in a free trade zone, and are also blocked from importation and release for free circulation.

In addition to these standard procedures and remedies, the customs service develops training sessions twice a year which provide right-holders with the opportunity to train custom officials on how to spot the differences between a genuine good and a fake. Right-holders can also enforce their rights at trade fairs with the direct assistance of the customs service, literally walking up to a booth for direct inspection and seizure. Many member states are known for taking proactive approaches to battling counterfeits and between 2007 and 2008, the number of seized goods increased from 79 million to 178 million goods.

One of the most notable differences in the European approach is in relation to the online sales of counterfeit products. A distinction is made between a host and editors. Internet Service Providers are considered to be hosts and have a standard of care similar to the standard for web-retailers in the United States. On the other hand, web-retailers normally fall within the category of editors within the EU. Editors are required to maintain a level of control over the content displayed on their web pages. As such, web-retailers in the EU are required to monitor the listings on their web pages in order to prevent infringement against the IP rights of right-holders. In particular, service editors need to make sure the webpage is not used for objectionable purposes. The web-retailer's main duties are; requesting for vendors to specify and display enough information to guarantee the authenticity of the product by including things such as product reference, series number, type number, or authenticity certificate, and to notify users and purchasers of the possible legal and criminal sanctions regarding the right-owner, the right-holder's right to perform authenticity checks, and relaying personal information to right-holders.

Finally, another noticeable step in the battle against counterfeits is the EU's approach to the willful purchase of counterfeit goods and its findings of contributory negligence. Under EU law, a purchaser can face criminal penalties for willfully buying a product which they know to be counterfeit. These penalties can include confiscation of the infringing products, fines, or criminal proceedings. In regards to contributory negligence, the European courts and tribunals have been less reluctant to find web-retailers liable. In one instance, eBay was required to pay Louis Vuitton 38.6 million euros, LVMH 19.28 million euro, and Christian Dior 16.4 million for enabling the sale of knockoff products. In addition, the court even went as far as issuing an injunction against eBay which would force them to prevent the sale of counterfeit products bearing LVMH's marks.

As illustrated, there are many different types of approaches to combating the importation and entrance of counterfeit goods into the channels of commerce. Each system embodies different priorities with their own concerns. The United States takes a hands-off approach that leaves much of the burden and solutions on right-holders while maintaining more clearly established recourse to courts than other countries. By contrast, the EU takes more of a shared burden approach under which right-holders, the government, and consumers are all stakeholders who must play their own role to combat counterfeits. Recently, the Anti-Counterfeiting in Trade Agreement (ACTA) was an attempt to establish more extensive rules through the use of a multilateral agreement. Although the EU and the US are signatories, neither country has ratified the treaty and the EU, as well as many of its members, have indicated that they will not ratify the treaty based on concerns of the effect over its citizens' fundamental rights such as freedom of expression and privacy.

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