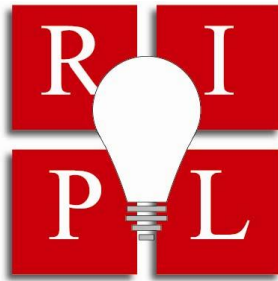


THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



BAD NEWS BIRKINS: COUNTERFEIT IN LUXURY BRANDS

COLLEEN JORDAN ORSCHELN

ABSTRACT

The luxury fashion industry spends millions of dollars each year fighting counterfeits, yet a fake Louis Vuitton bag is easily purchased on street corners around the world. Proponents of the counterfeits argue that the fakes translate to advertising for the brands, while the luxury brands argue that it damages the future of their brand. The counterfeit market has been linked to child labor, human trafficking, organized crime, and some terrorist groups. The current federal civil and criminal statutes exclude purchasers from prosecution and instead focus on the distributors of the goods. This comment proposes the strengthening of these laws by introducing consumer liability and the likely criticisms this would receive.

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COLLEEN JORDAN ORSCHELN

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BAD NEWS BIRKINS: COUNTERFEIT IN LUXURY BRANDS

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I. INTRODUCTION

A Hermès Birkin handbag is priced from \$7,500 to outwards of \$150,000¹; the bag can cost more than most people make in a year.² The Hermès Birkin has become an icon³ in the fashion industry since its development in 1984 and has launched memoirs, waiting lists, television episodes, and found national exposure from numerous celebrities.⁴

Recently, sales of the once coveted bags have fallen.⁵ The decline has been attributed to the new accessibility with flash-sale sites re-selling them and their overall increased availability.⁶ But not everyone who carries a Hermès Birkin paid

* © Colleen Jordan Orscheln 2015. Colleen Jordan Orscheln. J.D. Candidate, May 2015, The John Marshall Law School. B.A. Communication, Marketing Certificate, Saint Louis University, St. Louis, Missouri. I was inspired to write about counterfeit luxury goods because I am fascinated by the impact counterfeits have on the fashion industry and the zealous efforts that luxury brands go through to protect their trademarks. I would like to thank my family and friends for their support with this comment, and a special thanks to my dog for staying up late with me when I wrote it.

¹ Christine Muhlke, *Bag Man*, N.Y. TIMES (May 18, 2008), <http://www.nytimes.com/2008/05/18/books/review/Muhlke-t.html> (citing numbers from 2008; current numbers are likely a higher price point). *Id.*

² Neil Irwin, *The Typical American Family Makes Less Than it Did in 1989*, WASH. POST (Sept. 17, 2013), <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/09/17/the-typical-american-family-makes-less-than-it-did-in-1989/> (finding that the median household income in the United States for 2012 was \$51,017).

³ Blue Carreon, *Has the Hermès Birkin Bag Lost Its Appeal?* FORBES (July 17, 2012), <http://www.forbes.com/sites/bluecarreon/2012/07/17/has-the-hermes-birkin-bag-lost-its-appeal/>. The Birkin is referred to as representing “success, achievement, and status.” *Id.* See also Betsy Kroll, *In the Bag*, TIME (Apr. 17, 2007), <http://content.time.com/time/magazine/article/0,9171,1611284,00.html>. The Birkin bag came into existence after Jane Birkin, an actress/singer/It girl, met Jean-Louis Dumas, the chairman of Hermès, and noticed that her current basket weave purse was falling apart. *Id.* It was created for her as a gift. *Id.* See also Muhlke, *supra* note 1. This article is a review of a memoir entitled “Bringing Home the Birkin,” which details an eBay seller’s ability to subvert the Hermès waiting list and resell the lusted after bags. *Id.*

⁴ Robin Givhan, *Martha’s Moneyed Bag Carries Too Much Baggage*, WASH. POST (Jan. 22, 2004), <http://www.washingtonpost.com/wp-dyn/articles/A37117-2004Jan21.html/>. At the time this article was written, the waiting list for a Hermès Birkin was two and a half years long. *Id.* The company closed the wait list to create a waiting list for the waiting list. *Id.* See also *Sex and the City: Coulda, Woulda, Shoulda* (HBO television broadcast Aug. 5, 2001). The show featured a plotline centered on the character Samantha’s attempts to procure the handbag and bypass the waitlist. *Id.* See Carreon, *supra* note 3. Celebrity fans of the Birkin include Naomi Campbell, Lady Gaga, and Victoria Beckham. *Id.*

⁵ *Id.*

⁶ *Id.* (Finding the bag “ubiquitous” in Hong Kong, and that “too many people who are not fashionable” carry a Birkin, leading to their decline); See also *Birkin Bags No Longer Cool—Are the Kardashians To Blame?*, HUFF. POST (July 18, 2012), http://www.huffingtonpost.com/2012/07/18/birkin-bags-kardashians_n_1683478.html (suggesting that since the handbags are now carried by “regular” celebrities, reality stars such as the Kardashians, that they are becoming devalued; also hinting that the decline in popularity is due to the availability for immediate purchase via flash sale sites).

thousands to own the bag. There is a huge market for counterfeit luxury handbags and many consumers do not view this illegal activity as immoral.⁷ This creates a demand for counterfeit luxury goods, and our current intellectual property and criminal laws have yet to figure out the best way to stamp out this growing problem.⁸

Part I of this Comment provides the background, which explains the history of luxury goods and the laws regarding trademark infringement, with a focus on counterfeit laws in both the civil and criminal divisions. Part II confronts the problems counterfeit luxury goods cause and the efforts the luxury goods industry has done thus far to stop these problems. Part III contains a proposal for strengthening of current laws by introducing consumer liability domestically and arguments against the likely criticisms an enforcement of purchaser liability would cause.

II. BACKGROUND

This section provides an overview of luxury goods and current trademark infringement law, specifically in the area of counterfeiting. It further examines how trademark infringement and counterfeit goods are particularly relevant in luxury goods industry.

A. *Luxury Goods*

Before delving into current state of counterfeits, this comment will describe the history of luxury goods. The motivations for purchasing luxury goods are varied. Certain economist's theorize that luxury goods are not products that are intrinsically better than those of budget brands, but are purchased by those who want to show their

⁷ *Counterfeit Goods-A Bargain or a Costly Mistake?* UNITED NATIONS OFFICE ON DRUGS AND CRIME, http://www.unodc.org/documents/toc/factsheets/TOC12_fs_counterfeit_EN_HIRES.pdf (last visited Dec. 20, 2013); Renee Richardson Gosline, *Counterfeit Labels, Good For Luxury Brands?*, FORBES, (Feb. 12, 2010), <http://www.forbes.com/2010/02/11/luxury-goods-counterfeit-fakes-chanel-gucci-cmo-network-renee-richardson-gosline.html>. This article describes a purse party, an event where one sells counterfeit handbags to their friends in a similar vein of a Tupperware party. *Id.* The author notes that all attendants were aware that the bags were counterfeit and illegal, but did not view their behavior as wrong and instead thought of it as “having their priorities in order” because they were not paying the luxury price. *Id.* See also *Sex and the City: Critical Condition Fashion Credits*, HBO, <http://www.hbo.com/sex-and-the-city/episodes#/sex-and-the-city/episodes/5/72-critical-condition/article/fashion-credits.html> (last visited Dec. 20, 2013). HBO lists Carrie wearing a “blue leather fake Hermès” which suggests that counterfeits do not carry a negative stigma and are normal; Maria Elena Fernandez, *Inside ‘Real Housewives’ Star Taylor Armstrong’s Lawsuit Settlement*, THE DAILY BEAST (June 14, 2012), http://www.thedailybeast.com/articles/2012/06/14/inside-real-housewives-star-taylor-armstrong-s-lawsuit-settlement.html?utm_medium=email&utm_source=newsletter&utm_campaign=cheatsheet_morning&cid=newsletter%3Bemail%3Bcheatsheet_morning&utm_term=Cheat%20Sheet showing that even those reported to be rich purchase counterfeit Birkins. *Id.* “The Birkin bags turned out to be fakes from a real housewife.” *Id.*

⁸ Tiffany Yaneta, *A Canal Street Knockoff Could Someday Cost You a \$1,000 Fine*, N.Y. RACKED (Apr. 26, 2011), http://ny.racked.com/archives/2011/04/26/a_canal_knockoff_could_someday_cost_you_a_1000_fine_or_jail.php.

significant wealth to others and to separate themselves from others.⁹ Luxury has always been about setting oneself apart from the masses dating back as far as 700 BC. The luxury brands that still exist today were created in France during the reign of the Bourbons and Bonapartes.¹⁰ However, luxury goods have an appeal to most consumers, not just the very wealthy.¹¹

Economists theorize that luxury goods have a cycle that begins when the “elite” purchases a luxury product.¹² Once the “elite” have adopted this good it begins a trend that is picked up by the aspirational consumers.¹³ Aspirational consumers are non-elites who are considered trend-savvy and early adopters.¹⁴ The end of the luxury cycle begins when the bandwagon effect occurs and the luxury good is copied, causing the luxury good to lose its appeal and status to the “elite” customer.¹⁵

B. Trademark Infringement

The first major step in the protection of trademarks in the United States was the passing of the Trademark Act of 1946, recognizable by the name the Lanham Act.¹⁶ A trademark is categorized as a “word, design, symbol, device, or combination” that is used by a manufacturer to label their goods and set them apart from others.¹⁷ Trademarks are registered with the United States Patent and Trademark Office; if it is determined that the trademark is entitled to registration, the mark is published and if no opposition occurs, the mark is registered.¹⁸ Infringement occurs when a person uses a trademark without the consent of the registered owner of the trademark, or uses

⁹ Laurie Simon Bagwell & B. Douglas Bernheim, *Veblen Effects in a Theory of Conspicuous Consumption*, 86 THE AMERICAN ECONOMIC REVIEW 349, 361 (1996). Wanting to pay more for an item has been called a “Veblen effect.” *Id.* Named after the economist Thorstein Veblen whose writing *The Theory of the Leisure Class* focused on those who purchase expensive goods to advertise their wealth and achieve a higher social status; Gene M. Grossman & Carl Shapiro, *Foreign Counterfeiting of Status Goods*, NAT’L BUREAU OF ECONOMIC RESEARCH, May 1986 at 5 (furthering the support of “snob appeal” and “elites” interests in separating themselves from others). The term “elite” as used in this paper is the term that has been used by economists in describing theories of motivations for luxury good purchases. The term elite is the one most commonly used in these theories, and does not reflect the author’s own thoughts regarding those who do or do not purchase luxury goods.

¹⁰ DANA THOMAS, *DELUXE: HOW LUXURY LOST ITS LUSTER* 6 (Penguin Grp., 1st ed. 2007).

¹¹ Jonathan M. Barnett, *Shopping For Gucci On Canal Street: Reflections On Status Consumption, Intellectual Property, And The Incentive Thesis*, 91 Va. L. Rev. 1381, 1391 (2005).

¹² *Id.*; see also Ben Kleinman, *Luxury Markets, Antitrust, and Intellectual Property: An Introduction*, 90 J. PAT. & TRADEMARK OFF. SOC’Y 742, 749–750 (2008).

¹³ *Id.* at 749–750.

¹⁴ *Id.*

¹⁵ *Id.* The “elite” will move on to other luxury products, and the cycle continues. *Id.* Grossman explained it similarly, stating “that the prestige of a given brand is negatively related to the total number of consumers who sport its label.” Grossman, *supra* note 9, at 5.

¹⁶ Paul R. Paradise, *TRADEMARK COUNTERFEITING, PRODUCT PIRACY, AND THE BILLION DOLLAR THREAT TO THE U.S. ECONOMY* 6 (Quorum Books, 1st ed. 1999).

¹⁷ *Id.*

¹⁸ *Id.* at 7. Certain goods are not given the protection of trademarks and cannot be registered with the USPTO. Anne Gilson LaLonde, *NO MORE SHAM CHANEL, RIP-OFF ROLEX, PHONY FERRAGAMO OR COPIED CARTIER? ANTI-COUNTERFEITING IN THE TWENTY-FIRST CENTURY* 4 (Matthew Bender & Company, Inc. 2006).

a mark that is similar enough to the registered trademark to be confusing.¹⁹ The infringement must take place on goods or services that are closely related to the ones that the mark is registered for.²⁰ The Lanham Act's main purpose was to protect trademarks and repress the unfair competition, while at the same time encouraging the use of trademarks.²¹

Trademark infringement is the broader category and underneath trademark infringement's umbrella is counterfeiting, which is a specific type of trademark infringement.²² All counterfeit is considered a form of infringement, but not all infringement rises to the higher standard required by counterfeiting.²³

C. Counterfeiting

Counterfeiting occurs when an identical trademark is placed on merchandise to pass it off as a genuine item.²⁴ First, counterfeiting requires the trademark to be registered with the United States Patent and Trademark Office (USPTO).²⁵ But sometimes the good does not have to be of the same material or quality²⁶ to be considered counterfeit and usually the infringed good is not as well constructed.²⁷ An item does not have to perfectly duplicate the trademark to be considered counterfeit.²⁸ Trademark infringement cases require the court to analyze the likelihood of confusion factors; as counterfeit is a specialized form of trademark infringement, it does not always require this analysis.²⁹

The likelihood of confusion factors were first established in *Polaroid Corp. v. Polarad Elecs. Corp.* and have been used in subsequent cases to determine whether an infringement has taken place.³⁰ The eight factors are: the strength of the plaintiff's mark, how similar the marks are (plaintiff's and defendant's), the proximity of both products, the likelihood that by selling this the plaintiff will bridge the gap between themselves and defendants, whether there is actual confusion on the part of the

¹⁹ *Id.* at 8.

²⁰ *Id.*

²¹ Beverly W. Pattishall, *The Lanham Trademark Act at Fifty—Some History and Comment*, 86 TRADEMARK REP., 442, 442–448 (1996).

²² See LALONDE, *supra* note 18.

²³ *Id.*

²⁴ *Id.* at 5.

²⁵ 15 U.S.C. § 1116(d)(1)(B)(i); 18 U.S.C. § 2320(e)(1)(A)(ii).

²⁶ *Id.* at 9; *Gucci America, Inc. v. Frontline Processing Corp.* 721 F.Supp.2d 228, 237 (S.D.N.Y. 2010) “Though inferior in quality and workmanship, they appear to the naked eye to be similar if not identical.” *Id.*

²⁷ See *Fakes and Status in China*, THE ECONOMIST (June 23, 2012), <http://www.economist.com/node/21557317> (labeling consumers who purchase counterfeit luxury goods as people who do not value quality).

²⁸ See LALONDE, *supra* note 18, at 6 (clarifying the distinction between typical trademark infringement and counterfeiting). The author further explains the difference by using examples; typical infringement would be purchasing FUNDOUGH mistakenly believing it to be from the PLAY-DOH brand. *Id.* Counterfeiting would be packaging disks with a MICROSOFT label that were not from the company and selling it. *Id.* at 5.

²⁹ *Virgin Enterprises Ltd. v. Nawab*, 335 F.3d 141, 146 (2d Cir. 2003).

³⁰ *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492,495 (2d Cir. 1961).

consumers and their sophistication level, the sophistication of purchasers, the quality of the product in question, and defendant's good or bad faith.³¹

The distinction between trademark infringement and counterfeiting is important as it affects the damages available. For a civil violation of counterfeiting you can receive statutory damages, a mandatory award of attorneys' fees and treble damages.³²

Counterfeiting is prosecuted under both civil and criminal law and shares almost all of the same elements except for those involving the intent of the violation.³³ The federal civil law prohibiting counterfeiting is outlined in the Lanham Trademark Act,³⁴ which also contains the federal laws regarding trademark infringement and dilution.³⁵ The criminal law for counterfeiting is found in 18 U.S.C. § 2320 (2012).³⁶ There is counterfeiting under both civil and criminal law when it is likely to cause consumer confusion.³⁷ A counterfeit mark is one that is non-genuine³⁸ and both in use and registered on the USPTO's principal register for the same type of good that the non-genuine mark was applied.³⁹ Further, the defendant must not have authorization to use the genuine mark.⁴⁰ Purchasers are not exempt from civil and criminal liability.⁴¹

The term "knock off" and "counterfeit" are often used interchangeably in literature regarding counterfeit prevention, but the terms do have separate meanings.⁴² A knock off is a good that is similar in design to another good, and the similarity is so apparent that it is evident what item the knock off is copying.⁴³ Knock offs are not protected underneath trademark infringement laws, as currently most fashion designs are unable to be trademarked.⁴⁴

³¹ Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492,495 (2d Cir. 1961).

³² 15 U.S.C. §1117(b),(c)(2008).

³³ See LALONDE, *supra* note 18, at 35, 110–111 (finding a civil violation requires no intent, but a criminal has two intents written into their federal rules). The defendant must have both "intentionally" trafficked and "knowingly" used the counterfeit mark. 18 U.S.C. § 2320(a)(2012). However, while civil law does not require intentional counterfeiting to be considered a violation, it does affect the amount of statutory damages awarded. See LALONDE, *supra* note 18, at 35 citing 15 U.S.C. § 1117(c)(1), (2) (2008).

³⁴ 15 U.S.C. §§ 1051 et. seq. (2012).

³⁵ 15 U.S.C. § 1125(c)(2012).

³⁶ See LALONDE, *supra* note 18, at 2. This criminal statute has been strengthened over the years since its inception as the Trademark Counterfeiting Act of 1984, more recently with the added provisions from the Stop Counterfeiting in Manufactured Goods Act. *Id.*

³⁷ 15 U.S.C. § 1114(1)(a)(2005), 18 U.S.C. § 2320(a)(2012).

³⁸ 15 U.S.C. § 1127(2006), 18 U.S.C. § 2320(e)(1)(A).

³⁹ 15 U.S.C. § 1116(d)(1)(B)(i)(2008); 18 U.S.C. § 2320(e)(1)(A)(ii).

⁴⁰ 15 U.S.C. § 1116(d)(1)(B); 18 U.S.C. § 2320(e)(1).

⁴¹ See LALONDE, *supra* note 18, at 32–33 citing United States v. Guerra, 293 F.3d 1279, 1286 (11th Cir. 2002) for support.

⁴² *Id.* at 4.

⁴³ *Id.* An example of a knock off given are the countless copies of Kate Middleton's wedding dress that appeared online after her wedding to Prince William. Cheryl Wischhover, *Kate Middleton Knockoff Wedding Gowns and Accessories Hit Stores; Here Are the Good, the Bad and the Ugly*, FASHIONISTA (May 2, 2011 at 12:10 PM), <http://fashionista.com/2011/05/check-out-the-first-kate-middleton-knockoff-wedding-gowns-and-accessories/>.

⁴⁴ *Id.* at 9. The lack of protection for fashion designs is a separate issue that is constantly being battled in the courts; there have been proposals for legislation that have yet to be approved by Congress. *Id.* There have been strides in design protection, notably seen in the Louboutin v. YSL case which established that color alone could serve as a trademark for a brand. Christian Louboutin

D. International Counterfeiting Prevention

Stepping away from U.S. trademark law, this section discusses international efforts. The United States has signed various treaties in support of measures to more strictly enforce intellectual property rights. As members of the World Trade Organization (WTO)⁴⁵ the United States signed the Trade-Related Aspects of Intellectual Property agreement (TRIPs) which set forth various measures of standards, enforcement, and dispute settlement obligations in regards to copyrights, trademarks, and patents.⁴⁶ The TRIPs agreement focuses on other remedies available for the enforcement of intellectual property rights, including possible destruction of the goods and outlines the procedures to be adopted for trademark owners to launch complaints to stop counterfeit items from going into the marketplace.⁴⁷ The TRIPs Agreement requires that members of the agreement can create agreements stricter on intellectual property, but cannot enter into agreements that have looser rules than the guidelines of TRIPs.⁴⁸ The TRIPs Agreement is not a self-executing agreement, and therefore does not have legal effect until legislation is implemented.⁴⁹ However, Congress has followed the advisement of the WTO and enacted numerous federal criminal and civil statutes in line with provisions of the TRIPs Agreement.⁵⁰

The World Customs Organization built on the TRIPs Agreement in 2004 by releasing model provisions for border measures.⁵¹ The model provisions called for stricter enforcement on behalf of customs that would allow them to seize goods in transit.⁵² Also suggested was the creation of a centralized system of intellectual property rights.⁵³

v. Yves Saint Laurent, 696 F.3d 206, 212 (2nd Cir. 2012). The fear of allowing design protection stems from the idea that fashion is a creative industry, and creating stricter laws would stifle innovation and creativity. Sarah McCartney, *THE FAKE FACTOR* 15 (Times Publishing Limited, 1st ed. 2005). However, those in favor of further design protections argue there is a clear difference between inspiration and straight imitation. *Id.*

⁴⁵ WORLD TRADE ORGANIZATION, http://www.wto.org/english/thewto_e/countries_e/usa_e.htm (last visited Dec. 20, 2013) The WTO states that its objective is to “help trade flow smoothly, freely, fairly and predictably.” WORLD TRADE ORGANIZATION, http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr02_e.htm (last visited Dec. 20, 2013). It does this through settling trade disputes, assisting countries with trade negotiations and examining national trade policies, etc. *Id.*

⁴⁶ WORLD TRADE ORGANIZATION, *Overview: the TRIPS Agreement*, http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm (last visited Dec. 20, 2013).

⁴⁷ WORLD TRADE ORGANIZATION, *Agreement on Trade-Related Aspects of Intellectual Property Rights, Part III-Enforcement of Intellectual Property Rights, Article 46, 51, 59*, http://www.wto.org/english/tratop_e/trips_e/t_agm4_e.htm (last visited Dec. 20, 2013).

⁴⁸ Kenneth L. Port, *A Case Against the ACTA*, 33 CARDOZO L. REV., 1131, 1131–1182 (2012).

⁴⁹ *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 162 (2nd Cir. 2007).

⁵⁰ *Id.*

⁵¹ See LALONDE, *supra* note 18, at 11; *Model Provisions for National Legislation to Implement Fair and Effective Border Measures Consistent with the Agreement on Trade-Related Aspects of Intellectual Property Rights* [hereinafter Model Provisions] <http://www.tafar.org.tw/forum/20110816/20110816WCOModelLawfinal.pdf> at 4 (last visited Dec. 20, 2013).

⁵² *Model Provisions, Part II*, § 1.02. Seizing goods in transit is the standard in the European Union. *Id.*

⁵³ *Id.* at *Part II*, § 1.04. A centralized system would eliminate the need for the rights holder to show evidence of infringement. *Id.*

The Anti-Counterfeiting Trade Agreement (ACTA) was approved by the World Trade Organization and signed in October 2011 by the United States.⁵⁴ The ACTA has been ratified in one country but needs further ratification by six countries before it can be implemented.⁵⁵

ACTA has garnered criticism for policy laundering,⁵⁶ being invite only,⁵⁷ and has many concerned on the civil liberties and privacy rights it could affect.⁵⁸

While not currently done in the United States, Italy and France have adopted laws to prosecute consumers of counterfeit goods; France has a maximum fine of 300,000 euros or three years in jail.⁵⁹ Proposed legislation to prosecute U.S. consumers has thus far been unsuccessful.⁶⁰

III. ANALYSIS

The Analysis section focuses on the current state of the counterfeit industry, and will discuss the types of counterfeit being prosecuted in the United States. This section will also include a focus on the current sentiment felt by consumers and manufacturers of luxury goods and counterfeits.

A. Implications of Counterfeit Luxury Goods

The U.S. Chamber of Commerce claims that counterfeiting is responsible for the loss of more than 750,000 jobs domestically.⁶¹ Louis Vuitton spends millions of dollars each year fighting against counterfeiting.⁶² Hermès won a \$100 million judgment and permanent injunction against the owners of 34 websites.⁶³ These numbers are large and powerful, but what do they mean overall?

⁵⁴ Christine Quilichini, *Haute Couture Legislation: Tailor Made High Fashion Design Protection in The United States*, 4 NO. U. PUERTO RICO BUS. L.J. 228, 249 (2013).

⁵⁵ *Conclusion of the Anti-Counterfeiting Trade Agreement (ACTA) by Japan*, MINISTRY OF FOREIGN AFFAIRS OF JAPAN (Oct. 5, 2012), http://www.mofa.go.jp/policy/economy/i_property/acta_conclusion_1210.html.

⁵⁶ See Port, *supra* note 48, at 1161–1162.

⁵⁷ *Id.* at 1156. ACTA is a plurilateral agreement, meaning it was not open to all countries and gives the impression that all countries are not considered equal. *Id.*

⁵⁸ *Id.* at 1157. The Electronic Frontier Foundation (EFF) is a notable opponent to ACTA. *Id.*

⁵⁹ *Tourists Warned over Fake Goods*, BBC NEWS (Aug. 22, 2009), http://news.bbc.co.uk/2/hi/uk_news/8215519.stm.

⁶⁰ The New York City Council, Committee on Public Safety, Purchase of Counterfeit Goods Legislation, <http://legistar.council.nyc.gov/LegislationDetail.aspx?ID=885894&GUID=926F900B-7A1E-48E8-991D-6A3CFE24EA90&Options=ID%7cText%7c&Search=544> (June 13, 2013) (finding that proposed New York legislation to prosecute consumers for purchasing counterfeit goods is currently laid over and no further hearings have been set). *Id.*

⁶¹ U.S. CHAMBER OF COMMERCE, *Counterfeiting and Piracy: Threats to Consumers and Jobs*, 2006 <http://www.thetruecosts.org> (last visited Dec. 20, 2013).

⁶² See Port, *supra* note 48, at 1179. Port further explains that while millions of dollars is a large amount of money, Louis Vuitton has a gross income of \$28 billion, so this amount is likely just a drop in the bucket for them. *Id.*

⁶³ *Hermès International v. John Doe*, No. 12CV01623, 2012 WL 707685, (S.D.N.Y. Mar. 6, 2012). Other recent infringement and counterfeit cases involving luxury goods: Gucci America, Inc. v.

The numbers are important because they show the substantial affect that counterfeiting has on the luxury goods industry. In 2012 the top seized counterfeit goods were clothing and accessories, with purses, jewelry, and shoes all making the top ten.⁶⁴ These types of counterfeit goods are the type made by luxury brands, and show that they are the ones suffering from this problem. If luxury companies fail to take action against counterfeiters, it “can erode the status-symbol allure of these goods.”⁶⁵

Counterfeit litigation is expensive,⁶⁶ and while there are sometimes large judgments entered,⁶⁷ they are often unpaid due to defendant’s being unable to be reached.⁶⁸ However, pursuing counterfeiters is important because if you receive publicity for it counterfeiters might think twice before using your trademark in the future.⁶⁹ In the end, this deterrence is probably worth more to the brand and the future of its business than one judgment.⁷⁰

B. Balancing the Pros and Cons of Faux Fashion

Some argue that counterfeit goods affect the market place in a positive way, and that further legislation is not the proper approach against makers of infringing goods.⁷¹ First, this comment will expound on the arguments made in favor of allowing counterfeit goods and then give reasoning on why this information should not be read in a positive light.

Many luxury designers have spoken out about counterfeits in a surprisingly positive way. Phoebe Philo, creative director for Céline, states that she “loves” being copied, and even admits that her mother and friends own counterfeit bags.⁷² Louis

Guess?, Inc., 868 F.Supp.2d 207 (S.D.N.Y. 2012); Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93 (2nd Cir. 2010); Louis Vuitton Malletier v. Akanoc Solutions, 658 F.3d 936 (9th Cir. 2011); Chloe SAS v. Sawabeh Information Services Co., No. CV 11–04147 GAF (MANx), 2012 WL 7679386 (C.D. Cal. May 3, 2012); Omega SA v. 375 Canal, LLC, No. 12 Civ. 6979(PAC), 2013 WL 2156043 (S.D.N.Y. May 20, 2013); Christian Louboutin v. Yves Saint Laurent, 696 F.3d 206 (2nd Cir. 2012); Coach, Inc. v. Goodfellow, 717 F.3d 498 (6th Cir. 2013).

⁶⁴ *Intellectual Property Rights Fact Sheet*, U.S. CUSTOMS AND BORDER PROTECTION, http://www.cbp.gov/linkhandler/cgov/newsroom/fact_sheets/trade/ipr_fact_sheet.ctt/ipr_fact_sheet.pdf (last visited Dec. 20, 2013).

⁶⁵ Mark Sommers, *Taking an Aggressive Stance Against Counterfeiters: An Overview of Trademark Counterfeiting Litigation Under the Lanham Act*, Finnegan, (Oct. 1999), <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=d0fb159b-947e-427a-b03a-e6d60cf272f5>.

⁶⁶ *Id.*

⁶⁷ *Hermès International v. John Doe*, No. 12CV01623, 2012 WL 707685, (S.D.N.Y. Mar. 6, 2012).

⁶⁸ Safi Anand, *Hermès Wins \$100 Million Judgment Against Websites in Counterfeiting Suit*, (June 19, 2012), <http://www.lfirm.com/blog/2012/06/hermes-wins-100-million-judgment-against-websites-in-counterfeiting-suit.shtml>.

⁶⁹ *Id.* Hermès and Burberry are unlikely to get the judgment amounts entered from the defendants, but showed to future counterfeiters that they will take action. *Id.*

⁷⁰ *Id.*

⁷¹ See Port, *supra* note 48, at 1180. It should be noted that Port acknowledges the negatives about counterfeits in his argument and does believe that certain types of infringement are bad. *Id.*

⁷² Hamish Bowles, *The Phoebe Files*, VOGUE, Mar. 2013, at 580. The article goes on to note that this attitude towards copies is similar to Coco Chanel, who would be “worried” if she wasn’t being copied. *Id.*

Vuitton creative director Marc Jacobs echoes her sentiments, saying, “As long as I’ve been here, everything we have done has been copied . . . we hope to create a product that is desirable.”⁷³

Proponents of counterfeit and trademark infringing goods say that the counterfeits act as advertising for the brand.⁷⁴ This argument relies on the theory that the elite customers of luxury brands want to be envied by those who are non-elites.⁷⁵ It further emphasizes the idea that non-elites purchasing these fakes makes their own genuine luxury good feel more desirable.⁷⁶ *Louis Vuitton Malletier v. Dooney & Bourke* found that some customers of Louis Vuitton enjoyed the fact that the bags were being copied and made the bags more desirable to them.⁷⁷

Proponents of counterfeit items believe that the existence of counterfeits benefits luxury brands in a way that could not be achieved by the brands alone.⁷⁸ They believe that luxury brands cannot offer a lower quality and less expensive version of their own purse without lowering the premium of their own brand.⁷⁹ If a luxury brand were to offer a lower priced line, they are taking back their promise of exclusivity and future luxury buyers would not want to purchase from them.⁸⁰

The idea that the trademark infringing goods bring awareness to consumers about luxury brands is accurate; the most popular fashion fakes are the ones bearing the logos of luxury brands.⁸¹ Heather Thomas, an intellectual property lawyer conceded this, stating, “You’ll never see something counterfeit of a brand you’ve never heard of.”⁸²

While there is merit to the argument that producing a lower priced line could cheapen a brand many luxury brands have done this with superb results.⁸³ Karl Lagerfeld, a man who has become an icon as the current Chanel designer, has regularly dabbled in producing mainstream lines that have not affected the prestige of Chanel.⁸⁴ If luxury brands can collaborate with mass distributors for a small collection there

⁷³ See THOMAS, *supra* note 10, at 276. This is at odds with his company’s stance, as Louis Vuitton is known for fiercely prosecuting any trademark infringement as seen by their numerous judgments and litigation team. Louis Vuitton employs forty in house intellectual property lawyers and 250 private investigators to fight counterfeit and other trademark infringement. *Id.*

⁷⁴ See Port, *supra* note 48, at 1172.

⁷⁵ See Barnett, *supra* note 11, at 1400.

⁷⁶ *Id.*

⁷⁷ *Id.*; *Louis Malletier v. Dooney & Bourke Inc.*, 340 F.Supp. 2d 415, 448 (S.D.N.Y. 2004).

⁷⁸ See Barnett, *supra* note 11, at 1404–1408.

⁷⁹ *Id.*

⁸⁰ *Id.* This theory goes on to say that while there may be a bump in sales due to the new consumers, it would be short-lived as the very “elite” customers would find more exclusive brands to shop at who did not “violate” their trust by creating a similar product at a lower price point. *Id.*

⁸¹ See THOMAS, *supra* note 10, at 275.

⁸² *Id.* at 277.

⁸³ *Id.* at 316. If brands offer a design capsule collection for a limited time, as numerous brands have done with H&M, they reach a new audience while at the same time protecting the prestige of their brand. *Id.* The key to keeping the prestige is by making sure that it is only for a limited time and a small collection. *Id.* This new designer phenomenon is referred to as “massclusivity” which is a term that combines mass distribution with exclusivity. *Id.*

⁸⁴ Lynn Yaeger, *Chanel, H&M, Macy’s Diet Coke: What Should Karl Lagerfeld Design Next?*, VOGUE (Aug. 4, 2011), <http://www.vogue.com/vogue-daily/article/chanel-hm-macys-diet-coke-what-should-karl-lagerfeld-design-next/#1>. Karl’s line for H&M sold out within hours and was featured on eBay at much higher rates than retail value. *Lagerfeld’s High Street Split*, VOGUE (UK) (Nov. 4, 2004), <http://www.vogue.co.uk/news/2004/11/18/lagerfelds-high-street-split>.

ceases to be an argument for allowing the counterfeits to exist.⁸⁵ The luxury brands must be careful when doing lower priced lines, but participating in them can help in reducing counterfeit without hurting their elite brand name.⁸⁶

As mentioned above, proponents of counterfeiting argue that the counterfeit goods advertise luxury goods; however it is arguable that they advertise the brand in a way that isn't necessarily positive.⁸⁷ The "snob appeal" theory says that the counterfeiters dilute the luxury products and their differentiation in the market while at the same time lowering the prestige of the products by allowing consumers with "less discerning tastes" to become a part of the "elite club". Luxury brands intend to convey status and wealth with their products, which is difficult to achieve when those who do not project those qualities carry their trademarks.⁸⁸

Further, a counterfeit can be seen as "hijacking" a luxury brand's promises to a customer.⁸⁹ If a luxury brand is known for using high quality materials and a counterfeit has shoddy work, a consumer will be disappointed by the brand.⁹⁰ However, this only applies when the consumer is unaware they have purchased a counterfeit good.⁹¹

C. Not A Victimless Crime

Even the most zealous defenders of counterfeit goods have yet to come up with a response to the social issues it creates.⁹² One of the bigger problems with curbing counterfeit is getting the public and purchasers to acknowledge the substantial problems it causes.⁹³ The social issues caused by counterfeit are numerous.⁹⁴ Besides the obvious damage to the luxury brands bottom line, counterfeiting supports child labor, human trafficking, organized crime, and has been linked to terrorist groups.⁹⁵

⁸⁵ See THOMAS, *supra* note 10, at 316.

⁸⁶ See Kayla Hutzler, *Versace, H&M Collaboration: Brand Erosion or Harsh Reality?*, LUXURY DAILY (June 22, 2011) <http://www.luxurydaily.com/versace-and-hm-collaborate-on-fall-2011-line/>. Pam Danziger, president of Unity Marketing, said that the designer collaboration were the "future" of the fashion industry and that "designers might as well knock themselves off and make some money at it, since other people will do it." *Id.*

⁸⁷ See Grossman, *supra* note 9, at 3.

⁸⁸ See THOMAS, *supra* note 10, at 272. Please note that the theories of snob appeal and who conveys status is a theory brought forth by research and do not reflect the author's personal beliefs.

⁸⁹ See MCCARTNEY, *supra* note 44, at 38.

⁹⁰ *Id.*

⁹¹ *Id.* The book goes on to point out that if the consumer knows they are purchasing a counterfeit, they are more likely interested in the "image" the product projects, and not the quality, and therefore will not be upset by the product's lack of quality. *Id.*

⁹² See Port, *supra* note 48, at 1183. Port's article addresses child labor in his footnotes, stating that his paper is in no way a defense of it and that the topic is beyond the scope of his piece. *Id.* Port continues in this vein by stating that the topic of child labor is deserving of attention and is a "serious" issue. *Id.*

⁹³ *Id.* at 286. Those who purchase counterfeit luxury goods often see counterfeiting as a "victimless crime." *Id.*

⁹⁴ *Id.* at 269–296.

⁹⁵ *Id.*

The FBI believes that counterfeit goods financed the World Trade Center bombing in 1993, as well as the attack on September 11, 2001.⁹⁶ Interpol has reported that Islamic terrorists Hezbollah received \$20 million annually from South America and the sales of counterfeit goods.⁹⁷ Beyond this, counterfeit good sales have been linked to al-Qaeda, FARC, Colombia's rebel army, and paramilitary groups in Northern Island.⁹⁸

Despite numerous reports that verify the links to terrorism, there are still skeptics.⁹⁹ Professor Kenneth Port does not outright deny that terrorism is linked to counterfeit goods, but he believes that the link has been "overstated."¹⁰⁰ The argument put forth by Port denies the FBI's statements involving the 1993 World Trade Center bombing as "too fantastic to be accurate" and lacking in real evidence.¹⁰¹

Human trafficking and child labor are also major issues caused by counterfeit luxury goods.¹⁰² Child labor occurs primarily in China where 70% of the world's counterfeit luxury goods are made.¹⁰³ Many of the children working in counterfeit shops were sold by their parents.¹⁰⁴ Dana Thomas, author of *Deluxe: How Luxury Lost Its Luster*, recalls a factory in Thailand where the owner had broken all the bones in the children's legs and bound them so they were unable to mend.¹⁰⁵ When a factory is raided and shutdown the child workers are left without work, any income, and are homeless.¹⁰⁶ Human trafficking comes into effect when shipping containers of counterfeit goods are sent over with humans smuggled in.¹⁰⁷ Those smuggled inside were sold into labor and live and work in the sweatshop.¹⁰⁸ While most of the

⁹⁶ *Id.* at 275–276. Magnus Ranstorp, a terrorism expert, says, "profits from counterfeiting are one of the three main sources of income supporting international terrorism." *Id.* See also Dean T. Olson, *Financing Terror*, 76 FBI LAW ENFORCEMENT BULLETIN, 1, 3–4 (2007) (discussing a raid on counterfeit handbag shop that yielded a list of suspected terrorists).

⁹⁷ Charles R. McManis, *The Proposed Anti-Counterfeit Trade Agreement (ACTA): Two Tales of a Treaty*, 46 HOUS. L. REV., 1235, 1235–1256 (2009). Interpol is an international police organization that launched Operation Jupiter, a four-phase project that led to the discovery of many intellectual property issues and their involvement with organized crime and terrorist organizations. *Id.* at 1239–1242.

⁹⁸ See THOMAS, *supra* note 10, at 275–276 (linking counterfeiting to numerous terrorist groups throughout the world).

⁹⁹ See Port, *supra* note 48, at 1171 (espousing the belief that there is no verified data to support the claims linking terrorism and counterfeit goods).

¹⁰⁰ *Id.* at 1169–1171. Port admits that Professor Charles McManis has the most convincing argument for the terrorism/counterfeit link, noting his argument on Operation Jupiter, cited above at note 93. *Id.* at 1170.

¹⁰¹ *Id.* Professor Port continues with his argument, saying that Americans need to demand better data.

¹⁰² See THOMAS, *supra* note 10, at 287–288.

¹⁰³ *Id.*

¹⁰⁴ *Id.* Police had learned of the human trafficking problem in China and tried to prevent it by staking out train stations, which led to factories hiring agents to pose as a married couple and pretend the child laborers are their own family. *Id.*

¹⁰⁵ *Id.* at 288.

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* at 285. As shipments from China are generally more carefully checked, counterfeiters will first ship their goods to a "cleansing port" that is less known for counterfeit goods, before it then send the products to its end location in Europe or the United States. *Id.* at 284.

¹⁰⁸ *Id.* at 285. The workers who are trafficked are both children and adults. *Id.*

production of counterfeiting is done in China, the workers at sweatshops in the end location are in charge of putting the finishing touches on the products.¹⁰⁹

D. The New Sellers of Counterfeit

Looking beyond the social impact of counterfeiting, the counterfeit industry is an enormous threat to the value of protected trademarks in the United States and globally.¹¹⁰ This section centers on who is selling counterfeit products domestically and how the courts have determined their liability. There have recently been more judgments supporting luxury brands and their quest to stop counterfeiters, but these judgments are not enough. In a Gallup poll, 78% of respondents said they purchased products because they were easily available.¹¹¹ Counterfeit purses began as products that could only be purchased in big cities such as Los Angeles or New York, but due to the growth in demand and size of the counterfeiting industry the purses have reached the suburbs through the Internet and purse parties.¹¹² The women who host the purse parties are the “drug dealers” of counterfeit, meaning they buy from the wholesalers in the bigger cities and then sell them at parties to their friends.¹¹³ The sellers are not the heads of the counterfeit trade but are still prosecuted.¹¹⁴

The Supreme Court of Ohio decided a recent purse party case.¹¹⁵ The court held that the plaintiff was guilty of trademark counterfeiting.¹¹⁶ Juanita Troisi was convicted of trademark counterfeiting under Ohio’s criminal trademark laws after she hosted a purse party that was raided by police with help from Sergeant Richissin, who also worked in the intellectual property division of the Professional Investigation Consulting Agency.¹¹⁷ The police seized over 1,700 items and obtained a written

¹⁰⁹ *Id.* (explaining the final steps as sewing on the counterfeit luxury labels).

¹¹⁰ *Counterfeiting and Theft of Tangible Intellectual Property: Challenges and Solutions: Hearing Before the S. Comm. On the Judiciary*, 108TH CONG. (2004)(statement of Hon. Patrick J. Leahy, U.S. Senator from Vermont), at <http://www.gpo.gov/fdsys/pkg/CHRG-108shrg98207/pdf/CHRG-108shrg98207.pdf> (Mar. 23, 2004).

¹¹¹ Chris Stewart, *Brand Piracy: A Victimless Crime?*, Gallup (Mar. 1, 2005), <http://www.gallup.com/poll/15088/brand-piracy-victimless-crime.aspx>.

¹¹² See Gosline, *supra* note 7 (explaining purse parties and who has/attends them); see also THOMAS, *supra* note 10, at 289–290 (noting the role purse party women play in the counterfeit trade).

¹¹³ See THOMAS, *supra* note 10, at 289–290. The purse-party ladies buy from a wholesaler on Canal Street in New York City or Santee Alley in Los Angeles. *Id.* The wholesalers act as liaison between production overseas and in the United States, and have a network set up to allow them to avoid getting caught by police. *Id.* at 293. Most wholesalers will allow their goods to be seized over fighting the police and getting worse sentences. *Id.* However, as wholesalers are usually involved in a gang, some will turn to violence when threatened, resulting in slashed tires, car windows being broken, and beatings to those who are believed to cooperate with police. *Id.* at 294.

¹¹⁴ *Id.* at 289 (giving an example of purse party seller Virginia Topper who was found guilty of selling counterfeit goods and ended up being sentenced community service); see also Maxine Bernstein, *Purse Counterfeiting Ring Snatched by Authorities*, THE OREGONIAN (Nov. 19, 2009) http://www.oregonlive.com/news/index.ssf/2009/11/purse_counterfeiting_ring_snatched.html (detailing the sentencing of seven counterfeit sellers). All of the sellers plead guilty to second or third degree trademark counterfeiting and received up to two years probation, 2 days of jail, and 160 hours of community service; many of them stated that they did not know what they were doing was illegal. *Id.*

¹¹⁵ *State v. Troisi*, 124 Ohio St.3d 404, 2010-Ohio-275, 922 N.E.2d 957.

¹¹⁶ *Id.*

¹¹⁷ *Id.* at 405. Troisi was convicted by the trial jury of Ohio Rev. Code § 2913.34(A)(4)(2011),

statement from Trosi that the items “were not authentic.”¹¹⁸ However, Trosi was able to have her conviction overturned due to the fact that the State did not provide sufficient evidence to show beyond a reasonable doubt that the marks were registered with the USPTO.¹¹⁹

Another seller prosecution case is *State v. Marchiani*, which ruled on whether a product bearing counterfeit trademarks is protected by counterfeit laws if the purchaser is aware that the product is a fake.¹²⁰ The court did not find trademark infringement due to factual issues and remanded the case for further proceedings.¹²¹ Despite this, the court opined that there is a significant public interest in protecting the public from counterfeit goods and that the Trademark Counterfeiting Act should be broadly construed when it says counterfeiting has occurred if a sale is done “with the intent to deceive or defraud some other person.”¹²²

Besides pursuing sellers, luxury brands have turned to third parties: those who facilitate the transactions between seller and buyer on sites like eBay.¹²³ Tiffany & Co. became aware around 2004 that there was a large amount of counterfeit merchandise being sold on eBay, and brought an action against eBay alleging trademark infringement, false advertising, or trademark dilution.¹²⁴ eBay receives a portion of every transaction conducted on their site and took steps to prevent fraud from occurring on their site.¹²⁵ However, the fraud prevention was limited based on the fact that eBay does not inspect the items before they are sold on the website.¹²⁶

which states: “(A) No person shall knowingly do any of the following: (4) Sell, offer for sale, or otherwise dispose of goods with the knowledge that a counterfeit mark is attached to, affixed to, or otherwise used in connection with the goods.”

¹¹⁸ *Id.*

¹¹⁹ *Id.* at 406 (holding on appeal and affirming at Ohio State Supreme Court that Richissin’s testimony was insufficient to prove that the trademarks were registered); *see also* Andy Cordan, *Franklin Woman Indicted for Selling Counterfeit Purses*, WKRN-TV NASHVILLE (Oct. 19, 2013) <http://www.wkrn.com/story/23478967/franklin-woman-indicted-for-selling-counterfeit-purses> (reporting on another purse party case where the seller, Karen David, has been charged by the U.S. Attorney’s Office with selling counterfeit goods).

¹²⁰ *State v. Marchiani*, 336 N.J. SUPER. 541, 543, (Appell. Div. 2001) (finding that while defendant’s customers were aware they were buying non0enuine goods, the future consumers and trademark holders were defrauded by defendant’s actions).

¹²¹ *Id.* at 549.

¹²² N.J. Stat. Ann. § 2C:21–32 subd. c.; *Marchiani*, 336 N.J. SUPER at 545-546 (stating that the legislative history for the Trademark Counterfeiting Act shows that the trademark owners were meant to be included in the phrase “some other person”).

¹²³ *See* THOMAS, *supra* note 10, at 291-292. Wholesalers often rid themselves of stock through reputable websites eBay and Amazon.com.

¹²⁴ *Tiffany (NJ) Inc. and Tiffany and Company v. eBay Inc.*, 600 F.3d 93, 98 (2nd Cir. 2010). Tiffany is sold exclusively through their website, catalogs, and retail locations, and never discounts or sells overstock merchandise. *Id.* at 97. Prior to filing their claim against eBay, Tiffany began a buying program to assess the amount of counterfeit Tiffany goods were being sold on eBay. *Id.* Tiffany found that over 70% of the purported Tiffany goods on eBay they purchased were counterfeit. *Id.* However, the district court concluded that the buying program could not be entered into evidence due to being “flawed and of questionable value.” *Id.*

¹²⁵ *Id.* Between April 2000 and June 2004 eBay earned \$4.1 million based on sales involving purported Tiffany goods. *Id.* eBay’s fraud prevention cost \$20 million per year and created a fraud engine to search for counterfeiting. *Id.* at 98.

¹²⁶ *Id.* at 97.

eBay was also driving traffic to their site through advertising the Tiffany name on their site and through sponsored links.¹²⁷

The district court ruled in favor of eBay for all claims, and Tiffany appealed.¹²⁸ On appeal, the court affirmed the denial of the direct trademark infringement claim.¹²⁹ The court spent a greater amount of time discussing the contributory trademark infringement, and ultimately determined that eBay knowledge of infringement was not enough to sustain the claim of contributory trademark infringement.¹³⁰ Finally, the court affirmed that eBay had not committed any trademark dilution.¹³¹

The Tiffany case was a blow to luxury companies who had hoped that they would be able to make Web sites who host such business liable for infringement claims.¹³² However, eBay has not been successful against all luxury companies.¹³³ eBay has lost numerous judgments in France regarding the sale and advertisement of Louis Vuitton and Hermès counterfeit goods.¹³⁴ These verdicts may influence the U.S. courts in future decisions.¹³⁵

Retailers have been successfully prosecuted for their willful blindness.¹³⁶ Gucci settled a case in 2005 with Wal-Mart after selling their counterfeit goods. Counterfeit sales at reputable stores are more damaging to luxury brands and the ability to prosecute it helps protect their trademarks.¹³⁷

IV. PROPOSAL

The Proposal section will focus on how to effectively fix the problem of counterfeit and trademark infringement by adding in consumer liability. The current trademark procedures in place are not effective in curbing the growing issue of counterfeits.¹³⁸

¹²⁷ *Id.* at 101. An example of one of the sponsored links is “Top Valentine’s Deals” with hyperlinks to Tiffany merchandise: “Tiffany & Co. under \$150”, etc. *Id.*

¹²⁸ *Id.*

¹²⁹ *Tiffany*, 600 F.3d at 103. Tiffany alleges the direct trademark infringement under section 32 of the Lanham Act. *Id.* The court found that eBay lawfully used Tiffany’s trademark on its website and through sponsored links and did not imply a false affiliation or endorsement. *Id.*

¹³⁰ *Id.* at 109. eBay did not have willful blindness about the counterfeit activity on their site and took action to prevent further counterfeit sales from happening, including responding to any notice of claimed infringement within 24 hours. *Id.* at 99.

¹³¹ *Id.* at 112. eBay did not have a second product that would blur or tarnish Tiffany’s trademark. *Id.* Tiffany further argued contributory dilution, and while the court was not sure whether or not such a thing could exist, it denied it on the basis given for denying contributory trademark infringement. *Id.*

¹³² See THOMAS, *supra* note 10, at 291-292. A similar suit was filed in Paris by Louis Vuitton.

¹³³ See Doreen Carvajal, *Court Sides With LVMH over eBay*, N.Y. TIMES (June 30, 2008), http://www.nytimes.com/2008/06/30/technology/30iht-lvmh.4.14109529.html?_r=0.

¹³⁴ *Id.* France is the home to both luxury brands mentioned, which likely influenced the verdict holding eBay liable. *Id.*

¹³⁵ *Id.*

¹³⁶ See THOMAS, *supra* note 10, at 290. Costco and Wal-Mart have all been found liable for selling counterfeit goods in their stores.

¹³⁷ *Id.* Steven Gursky, a lawyer who has pursued numerous willful blindness cases against retailers, believes that purchasers generally know they are buying fakes on Canal Street, but would not think that at a reputable store. *Id.*

¹³⁸ Transcript of the Minutes of the Committee on Public Safety [hereinafter Transcript] 6 (June 13, 2013) (explaining that current trademark law only applies to manufacturers or sellers and isn’t

Counterfeit production has improved with technology, which has led to increased counterfeiting and intellectual property theft of trademarked luxury goods.¹³⁹ To resolve this issue, current federal civil and criminal statutes should be revised to penalize the consumers who either intentionally or knowingly purchase counterfeit luxury goods. Current federal laws do not include purchasers; the statutes only apply to those who intend to traffic counterfeit goods and apply only to those who intend to profit from the trademarks.¹⁴⁰ To further combat trademark counterfeiting, third party sites should adopt similar standards to eBay to prevent counterfeiting from occurring through their channels.¹⁴¹

A. Limitations to Purchaser Penalties

Purchasers of counterfeit goods in the United States have thus far been exempt from any penalties; all prosecution of counterfeit goods has been related to the trafficking of the trademarked items.¹⁴² Penalizing those who purchase counterfeit goods is currently done in Italy and France, but legislation here has failed to be passed.¹⁴³ Recently, council member Margaret Chin had proposed an amendment to the administrative code to New York City in relation to counterfeit goods.¹⁴⁴ Ms. Chin proposed that purchasers of counterfeit trademark items be charged with a Class A misdemeanor, which could include jail time.¹⁴⁵ To support the legislation, the penalties available for purchasers in Italy and France were discussed along with the positive effects it had on curbing the amount of counterfeits present in those

addressing the issue properly). *See also* Julie Shapiro, *Tourists Say They'll Still Buy Handbags Despite Proposed Law*, DNAINFO NEW YORK (Apr. 26, 2011), <http://www.dnainfo.com/new-york/20110426/downtown/tourists-say-theyll-still-buy-counterfeit-handbags-despite-proposed-law> (describing the current trademark law as “incomplete” as it does address the demand for counterfeit goods). *Id.*

¹³⁹ *See* Paradise, *supra* note 16, at 24 (finding that there was a dramatic increase in the quality of counterfeits resulting from advances in technology that allows trademarks to be replicated exactly).

¹⁴⁰ *See* LALONDE, *supra* note 18, at 32–33 citing *United States v. Guerra*, 293 F.3d 1279, 1286 (11th Cir. 2002) for support.

¹⁴¹ *Tiffany (NJ) Inc. and Tiffany and Company v. eBay Inc.*, 600 F.3d 93, 97 (2nd Cir. 2010).

¹⁴² *Id.* *See also* Alison Neumer, *Faux Real*, CHICAGO TRIBUNE (December 15, 2004), http://articles.chicagotribune.com/2004-12-15/news/0412160022_1_counterfeit-merchandise-international-anti-counterfeiting-coalition-fake- (showing that anyone above the consumer can be criminally liable).

¹⁴³ LEGISLATIVE RESEARCH CENTER, *The New York City Council Website*, <http://legistar.council.nyc.gov/LegislationDetail.aspx?ID=885894&GUID=926F900B-7A1E-48E8-991D-6A3CFE24EA90&Options=ID|Text|&Search=544> (last visited Dec. 20, 2013).

¹⁴⁴ *See* Transcript, *supra* note 138 at 4 (June 13, 2013). Ms. Chin is a representative for District 1 of New York City, which includes the area of Chinatown, a hot-bed for counterfeit luxury goods. *Id.* at 59. Chinatown has become a “destination” to purchase counterfeit trademark goods, and Ms. Chin wishes to change this illegal behavior. *Id.* Besides the obvious reasons of the illegality of counterfeiting, Ms. Chin opposes counterfeiting for the bad reputation it gives to her area, and the fact that tax dollars, jobs, and profits are being deprived from the city by allowing this illegal practice to continue. *Id.* at 60.

¹⁴⁵ *Id.* at 4. The suggestion of jail time was found to be excessive to many on the council outside of Ms. Chin. *Id.*

countries.¹⁴⁶ While there was media interest around this bill, it has presently failed to move forward to becoming law.¹⁴⁷

The legislation discussed above was just for New York, but to effectively combat counterfeiting there should be changes made at a federal level.¹⁴⁸ The addition of purchaser liability would need to be included in both the Lanham Act and the criminal statutes to be completely effective.¹⁴⁹ As explained in the background section of this paper, the current civil and criminal statutes in both sections mirror each other except in the areas of intent required.¹⁵⁰ The Lanham Act does not require intent¹⁵¹ to penalize a manufacturer or trafficker of counterfeit goods, but if there is intent a penalty can be increased.¹⁵² However, when revising the current intellectual property law, intent should be required of any purchaser.

B. Likely Criticism Against Purchaser Penalties

It is likely that critics will find penalizing purchasers wrong for confusion reasons and failing to solve the root issue of counterfeiting.¹⁵³ Critics might argue that it would nearly impossible to prove the knowledge element for the violation, and those who are unaware they are buying a counterfeit trademark item should not be penalized for not being savvy enough to distinguish a counterfeit item from the genuine trademarked good.¹⁵⁴

Critics would further argue that targeting all purchasers could risk alienating bargain hunters and might cause people to be afraid to go shopping.¹⁵⁵ Critics would argue that the purchaser is the “little guy” in the situation and that a luxury brand has high enough profits to handle the damage caused by counterfeit purchases.¹⁵⁶

The current system of going after the sellers does help momentarily, but seizing the items is only fixing part of the problem.¹⁵⁷ There are two problems besides the sellers: the purchasers who drive up the demand for these goods and the organized criminal groups that are supplying them through international manufacturing and

¹⁴⁶ *Id.* at 59 (stating that Paris does not experience the problems New York sees on Canal Street because they are deterred by the purchaser penalties).

¹⁴⁷ See Legislative Research Center, *supra* note 143. Currently no progress has been made with this bill and it is marked as “laid over.” *Id.* See also Irene Plagianos, *Councilwoman Chin Makes Another Push to Target Knock-Off Bag Customers*, DNAINFO NEW YORK (Mar. 15, 2013), <http://www.dnainfo.com/new-york/20130315/tribeca/councilwoman-chin-makes-another-push-target-knock-off-bag-customers>.

¹⁴⁸ See LALONDE, *supra* note 18, at 3 (giving statistics of the current issues that trademark counterfeiting causes all over the United States and support for it not to be handled at the state level).

¹⁴⁹ 15 U.S.C. §§ 1051 et. seq. (2012); 18 U.S.C. § 2320 (2012).

¹⁵⁰ See LALONDE, *supra* note 18, at 35, 110–111.

¹⁵¹ *Id.* (finding a civil violation requires no intent, but a criminal has two intents written into their federal rules).

¹⁵² *Id.*

¹⁵³ See Transcript, *supra* note 138 at 27.

¹⁵⁴ *Id.* at 46.

¹⁵⁵ *Id.* at 22.

¹⁵⁶ See MCCARTNEY, *supra* note 44, at 21.

¹⁵⁷ See THOMAS, *supra* note 10, at 277 (explaining that luxury brands who actively pursue counterfeiters see a drop in the amount of trademark infringing items on the market, but the moment that they stop fighting counterfeiters, the fake products pick back up).

shifty business tactics.¹⁵⁸ The Lanham Act and the criminal statutes enforcing trademark owner's rights were created to protect those who had registered their items with the U.S.P.T.O.¹⁵⁹ The next logical step in combatting counterfeit would be all who add to the demand of counterfeit goods be penalized and further deterred from participating in this illegal activity, no matter how small their action is.¹⁶⁰

In response to fears about punishing those who have no actual knowledge that the item they are buying is counterfeit there is an additional alteration to the law that could be beneficial if added.¹⁶¹ Instead of adding purchasers of counterfeit goods to the Lanham Act and criminal federal law, the law could be limited to purchasers of counterfeit luxury goods and accessories. It is established that counterfeit luxury accessories are a known counterfeit good that people seek out and most purchasers are aware that they are purchasing a non-genuine item.¹⁶² It has been proven that these products are the top manufactured counterfeited good.¹⁶³ However, when consumers buy pharmaceuticals, toys, and other products they are less likely to assume that what they are purchasing is a counterfeit good, and it would be unfair to punish purchasers who were truly in the dark as to what they were doing; therefore limiting the purchaser liabilities to counterfeit luxury accessories could ease many critics fears.¹⁶⁴ Further, the criticism that this type of action would be punishing a "little guy" is unfounded; the "little guy" has the choice in purchasing a counterfeit or not, and by choosing to purchase counterfeit they are driving up the luxury brand's prices when they could just as easily purchase something legal but completely different.¹⁶⁵

V. CONCLUSION

Luxury brands have a difficult place in the world of intellectual property theft; regular consumers do not see any harm in purchasing counterfeit goods and many intellectual property proponents believe that trademark owners have the tools

¹⁵⁸ See *Economic Impact of Counterfeiting and Piracy Report 48* (OECD Pub., 1st ed. 2008) (finding that the demand for counterfeit goods is linked to the size of the markets, the awareness/strength of a brand, and the availability of technology to create the trademark infringing goods). The report goes on to state that brands that are higher-powered are likely to be more profitable than those that are less known, which reflects other research that luxury brands are a major target due to their large audience to want to purchase their items. *Id.*

¹⁵⁹ See LALONDE, *supra* note 18, at 3.

¹⁶⁰ See Transcript, *supra* note 138 at 6–7 (supporting the idea that even a small transaction of counterfeit is harmful because it further funds terrorism, unsafe working conditions, etc.).

¹⁶¹ *Id.*

¹⁶² *Id.* at 21. Areas such as Canal Street in New York City and Santee Alley in Los Angeles are places well established as carrying counterfeit goods, and purchasers would be aware and not think the items were genuine. See THOMAS, *supra* note 10, at 279.

¹⁶³ See Transcript, *supra* note 138 at 55–56 (listing in order the most counterfeited items from a 2012 Wall Street report, with handbags being at the top of the list); see also *Counterfeit Goods-A Bargain or a Costly Mistake?*, *supra* note 7 (stating that counterfeit clothing, jewelry and accessories make up 67% of all types of counterfeit goods worldwide); THOMAS, *supra* note 10, at 11 (finding that the fashion industry alone loses up to 9.7 billion per year due to counterfeiting, suggesting that it is an industry particularly plagued by this issue).

¹⁶⁴ See Transcript, *supra* note 138 at 55–56.

¹⁶⁵ See MCCARTNEY, *supra* note 44, at 219 (explaining that the best way to stop luxury brands from raising their prices is to not buy a counterfeit good that would cause them to have to do so).

available to pursue counterfeiters.¹⁶⁶ Counterfeits continue to be a hot topic for items unrelated to luxury goods, such as medicines, and the increased attention to this growing issue will hopefully result in changes to the current state of intellectual property theft.¹⁶⁷

While penalizing purchasers might not be an ideal situation, past efforts have failed thus far to curb the increasing demand of counterfeit goods and fresh ideas must be considered.¹⁶⁸ This proposal is a possible solution that would deter purchasers from buying counterfeit luxury items, or at the very least increases awareness of the issue to those who perceive it as a “victimless” crime.¹⁶⁹

¹⁶⁶ See Gosline, *supra* note 7 (showing that purchasers of counterfeit goods do not see the harm it causes worldwide or to luxury brands); see also Port, *supra* note 48, at 1152 (stating that having the government further involved with enforcing intellectual property could be comparable to another “hated corporate bailout”).

¹⁶⁷ See *Counterfeit Goods-A Bargain or a Costly Mistake?*, *supra* note 7 (stating that fraudulent pharmaceuticals are a concerning issue that can lead to death and threats to public health). Counterfeit medicine make up 6% of counterfeit materials seized, while clothing, jewelry and accessories make up 67%. *Id.* Considering the magnitude of these numbers, it is shocking that many would not consider counterfeiting illegal or a problem that needed to be addressed. *Id.* See also MCCARTNEY, *supra* note 44 at 219 (stating that even if counterfeiting appears trivial because it is for a designer purse, and not for faking medicine, it is still supporting someone who has stolen someone else’s work).

¹⁶⁸ See Transcript, *supra* note 138 at 6. Council member Margaret Chin stated, “we cannot keep trying to tackle this in the same way because it’s not working.” *Id.*

¹⁶⁹ *Id.* at 3-4.