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## THE EVOLVING THREAT AND ENFORCEMENT OF REPLICA GOODS

JENNY T. SLOCUM & JESS M. COLLEN\*

### INTRODUCTION

Of all the instances and schemes for infringing and counterfeiting trademark rights, perhaps none has been as successful and insidious as “replicas.” The term “replica,” when applied, for instance, to a watch or handbag, is synonymous with “counterfeit.”<sup>1</sup> Both terms are used to describe a product that is an exact and unauthorized copy of an authentic product.<sup>2</sup> While some street merchants may call their counterfeit products “replicas,” the designation exploded in popularity on the thousands of websites that boast look-alike counterfeit products. The popularity of “replica” goods is largely dependent on the absence of liability for manufacturers of these transient and low-cost goods, coupled with the public’s quest for a luxury image without the luxury good price.<sup>3</sup> The prevalence

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1. See, e.g., *Hermes Int’l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 106 (2d Cir. 2000); *Gucci Am., Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228, 248 n.7 (S.D.N.Y. 2010).

2. *United States v. McEvoy*, 820 F.2d 1170, 1172 (11th Cir. 1987) (detailing expert government witness testimony to this effect); see also BLACK’S LAW DICTIONARY 402-03 (9th ed. 2009) (defining that counterfeit means: “[t]o unlawfully forge, copy, or imitate an item . . . . Counterfeiting includes producing or selling an item that displays a reproduction of a genuine trademark . . . to deceive buyers into thinking they are purchasing genuine merchandise”); MERRIAM-WEBSTER’S COLLEGIATE DICTIONARY 1056 (11th ed. 2003) (defining replica as: “an exact reproduction (as of a painting) executed by the original artist”).

3. “If there is demand, there will be supply . . . .” Stephanie Clifford, *Economic Indicator: Even Cheaper Knockoffs*, N.Y. TIMES, July 31, 2010, <http://www.nytimes.com/2010/08/01/business/economy/01knockoff.html> (quoting John Spink, Associate Director of Anti-Counterfeiting & Product Protection Program at Michigan State University) (discussing counterfeit products).

of replica goods and the never-ending demand for them has created an unprecedented enforcement challenge for trademark owners.<sup>4</sup>

### I. WHAT IS A REPLICA?

The common terminology “replica” is well known to define goods that are exact imitations.<sup>5</sup> A replica product was traditionally considered to be a type of innocent collectible, such as a small scale replica car, an historical coin, or possibly an authorized facsimile of a jersey worn by a professional athlete. A “replica” was initially defined as “a duplicate of the original, produced by the same artist . . . [that] must be identical in material, size and detail.”<sup>6</sup> The term “reproduction” was similarly defined, but could only be used for items produced by the same entity that produced the original work,<sup>7</sup> including art reproductions.<sup>8</sup> But use of “replica” has in recent years been adopted to identify an unauthorized, illegal, and very profitable product, including luxury goods, such as handbags and designer watches.<sup>9</sup>

Throughout the rest of our jurisprudential history, the goods, which today are being called “replicas,” have simply been known by a different, common name—“counterfeit.” Other terms used to describe counterfeit products include “fakes,” “knock-offs,” “imitator brands,” and the phrase “inspired by”—terms generally used in an attempt to differentiate fake products from authentic goods.<sup>10</sup> The product sellers suggest that while the “imitator” or “inspired” design has key similarities to an authentic product, it is not counterfeit, often because the imitation has some minor differences from the authentic product. An example of this type of disclaimer language is found on a website selling “inspired” handbags:

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4. See Jenny T. Slocum, *Counterfeit Goods: How Did We Get Here and Where Will We Go Next?*, CONSULEGIS 1 (Feb. 15, 2010), [http://www.consulegis.com/fileadmin/downloads/thomas\\_marx\\_0910/consulegis\\_tma\\_jenny\\_slocum.pdf](http://www.consulegis.com/fileadmin/downloads/thomas_marx_0910/consulegis_tma_jenny_slocum.pdf).

5. See *supra* note 2 and accompanying text.

6. Treas. Dec. 29, at 69 (1915).

7. *Id.*; see also *Gregory v. United States*, 32 Cust. Ct. 228, 231 (Cust. Ct. 1954) (“[R]eplica’ [is] a duplicate executed by the artist making the original, . . . ‘reproduction’ [is] a thing reproduced, and . . . ‘copy’ [is] a thing as near like the original as the copyist has the power to make it.” (citing *United States v. Downing & Co.*, 6 Ct. Cust. 545, 547 (Ct. Cust. 1916))).

8. See Joseph C. Gioconda, *Can Intellectual Property Laws Stem the Rising Tide of Art Forgeries*, 31 HASTINGS COMM. & ENT. L.J. 47, 65 n.125 (2008).

9. See Slocum, *supra* note 4, at 6-7.

10. See *id.* at 3.

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Note: we don't sell "name-brand" goods. We invite you to compare the styling of our goods with name-brand goods, but remember that we are in no way associated with the owners of those brands. Some of our goods may resemble name-brand goods, but they are not identical. We provide good quality products and good value for your money, but our products may not be made in the same way or with the same materials as some name-brand goods.<sup>11</sup>

The question becomes whether a slight variation in the product avoids an illegal use prohibited by anti-counterfeiting laws. To some, this type of "replica" seems harmless, particularly in the fashion industry where well-known designers dictate each season's fashion trends. The higher the value attributed to a trademark and the goods sold bearing the trademark, the more likely the product will become a target of unauthorized reproduction.<sup>12</sup> Owners of trademarks connected with luxury goods spend large resources promoting their luxury brands and the quality and prestige associated with them. It is almost inevitable that their products will be illegally replicated by third parties. Sellers of these look-a-like products naturally avoid use of the term "counterfeit" because it connotes illegal activities.<sup>13</sup> The word "replica" to describe these same goods eliminates the consumer's perception of any illegality of the goods.<sup>14</sup> However, replica products have indeed been recognized as counterfeit by numerous jurisdictions, and any use of "replica" to describe counterfeit products does not remove or lessen liability.<sup>15</sup>

Current U.S. trademark law provides a remedy against:

a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered; or a spurious designation that is identical with, or substantially indistinguishable from . . . .<sup>16</sup>

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11. POLKADOT PETALS, [http://www.polkadotpetals.com/Designer\\_inspired\\_hand\\_bags\\_and\\_purse\\_replicas\\_s/34.htm](http://www.polkadotpetals.com/Designer_inspired_hand_bags_and_purse_replicas_s/34.htm) (last visited Apr. 18, 2011).

12. See, e.g., *Coach Leatherware Co. v. AnnTaylor, Inc.*, 933 F.2d 162, 167 (2d Cir. 1991); *Montres Rolex, S.A. v. Snyder*, 718 F.2d 524, 531 (2d Cir. 1983).

13. Slocum, *supra* note 4, at 6.

14. *Id.*

15. See *United States v. Foote*, 413 F.3d 1240, 1248 (10th Cir. 2005) (finding defendant guilty of trafficking counterfeit goods he labeled as "replicas"); *United States v. Torkington*, 812 F.2d 1347, 1354-55 (11th Cir. 1987).

16. Lanham Act, 15 U.S.C. § 1116 (d)(1)(B)(i)-(ii) (2006). This contrasts with "piracy," which is used in both the trademark and copyright context. With regard to trademarks, piracy "involves the registration or use of a famous foreign trademark that

“Spurious” is commonly defined as “outwardly similar or corresponding to something without having its genuine qualities.”<sup>17</sup> Absent from the anti-counterfeiting statute is the acknowledgement of “replica” as being counterfeit. However, replica goods are purposely designed to replicate, assimilate, or mimic genuine goods bearing a registered trademark in order to capitalize on the fame and goodwill the trademark has acquired.

There is no clearly defined point when counterfeiters started using the term “replica.” The progression of replica goods has evolved with the accessibility of the Internet.<sup>18</sup> Given the illegality of manufacturing, selling, or offering for sale replica items, it is difficult to discern the real origin of replica-termed goods. But one thing is certain: the prevalence and sophistication of counterfeit goods is continually evolving and expanding, permeating the global economy.<sup>19</sup> By 1985, counterfeiting was considered the “world’s fastest growing and most profitable business.”<sup>20</sup> In the mid-1980s, the United States government acknowledged the surging problem of counterfeit products and began adopting anti-counterfeiting legislation.<sup>21</sup>

Because of the appearance and prevalence of counterfeit goods in all facets of the market, consumers are faced with a burden of having to circumvent potentially dangerous products. In 2007, Colgate-Palmolive had to remove counterfeit toothpaste from discount store shelves that contained an ingredient not authorized for COLGATE branded toothpaste.<sup>22</sup> While the counterfeit versions were determined to be a low health risk (although they did contain Diethylene Glycol, an ingredient found in antifreeze), this incident

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is not registered in the country or is invalid because the trademark has not been used.” SHAYERAH ILIAS & IAN F. FERGUSON, CONG. RESEARCH SERV., INTELLECTUAL PROPERTY RIGHTS AND INTERNATIONAL TRADE 4 (Dec. 20, 2007), available at <http://fpc.state.gov/documents/organization/99532.pdf>. Copyright piracy is the unauthorized copying and dissemination of a copyrighted work. *Id.*

17. MERRIAM-WEBSTER’S COLLEGIATE DICTIONARY 1210 (11th ed. 2003).

18. See Slocum, *supra* note 4, at 1.

19. *Id.* at 3.

20. Gene M. Grossman & Carl Shapiro, *Counterfeit-Product Trade*, 78 AM. ECON. REV. 59 (1988) (quoting Bus. Wk., Dec. 16, 1985).

21. See Trademark Counterfeiting Act, 18 U.S.C. § 2320 (2006) (a statute still in effect today).

22. Allison Klimerman & Tom Paoella, *Update: Counterfeit Toothpaste Falsely Labeled as “Colgate”*, COLGATE WORLD OF CARE COMPANY NEWS, June 15, 2007, <http://investor.colgate.com/ReleaseDetail.cfm?ReleaseID=249237&ReleaseType=Company&ReleaseDate=%7Bts%20%2007-06-15%2000:00:00%7D&header=&Archive>.

demonstrated the vulnerability of a well-known, non-luxury product falling prey to the counterfeit market.<sup>23</sup>

Other counterfeit products include, for example, automotive parts (including brake pads), baby products, toys, and pharmaceuticals.<sup>24</sup> Alarming, “2% [over 500,000] of the . . . airline parts installed each year are counterfeit.”<sup>25</sup> These types of disguised counterfeit products vary from the blatant replica goods that are discussed in this Article, which typically include luxury goods.<sup>26</sup> Enforcement of anti-counterfeiting laws regarding replica goods should be easier since they are usually openly sold as “replicas.”

Aside from the threat to consumers, ample evidence indicates that the counterfeit industry is more lucrative than the drug trade and is used to fund separate illegal ventures and organizations.<sup>27</sup> Indeed, it has been shown that drug dealers are often lured into the counterfeit business because it involves a lower risk in terms of criminal penalties and danger, and ultimately reaps higher rewards than dealing drugs.<sup>28</sup> The penalties associated with selling counterfeit goods are less than selling drugs.<sup>29</sup> According to the International AntiCounterfeiting Coalition (IACC), a not-for-profit organization focused on combating counterfeiting, the sale of counterfeit products is more than a 600 billion dollar annual business, representing at least five percent of world trade and costing U.S. businesses alone over \$200 billion.<sup>30</sup> And the counterfeit market

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23. *Id.*

24. See Timothy P. Trainer, *The Fight Against Trademark Counterfeiting*, CHINA BUS. REV., 2002, <http://chinabusinessreview.net/public/0211/trainer.html>; see also *Examining the Theft of American Intellectual Property at Home and Abroad: Hearing Before the S. Comm. On Foreign Relations*, 107th Cong. 107-457 (2002).

25. *About Counterfeiting: Get Real*, THE INT'L ANTI-COUNTERFEITING COALITION, <http://www.iacc.org/about-counterfeiting/> (last visited Apr. 18, 2011) [hereinafter *About Counterfeiting*].

26. See Slocum, *supra* note 4, at 6.

27. See generally *New York/New Jersey Intellectual Property Rights Conference: IP Crimes, Victims & Cases*, GLOBAL INTELLECTUAL PROPERTY CTR. (Nov. 5, 2009), <http://www.regonline.com/builder/site/tab1.aspx?EventID=777797>.

28. *Id.*; see also *Counterfeit Goods: Easy Cash for Criminals and Terrorists: Hearing Before the S. Comm. on Homeland Security and Governmental Affairs*, 109th Cong. 10-14 (2005) (statement of Kris Buckner, President, Investigative Consultants) [hereinafter *Counterfeit Goods*].

29. Sandro Calvani & Marco Musumeci, *Counterfeiting: The Hidden Crime*, FREEDOM FROM FEAR MAG., [http://www.freedomfromfearmagazine.org/index.php?option=com\\_content&view=article&id=95:counterfeiting&catid=37:issue-1&Itemid=159](http://www.freedomfromfearmagazine.org/index.php?option=com_content&view=article&id=95:counterfeiting&catid=37:issue-1&Itemid=159) (last visited Apr. 18, 2011); *Counterfeit Goods*, *supra* note 28.

30. See *The Truth About Counterfeiting*, INT'L ANTI-COUNTERFEITING COALITION, <http://www.iacc.org/about-counterfeiting/the-truth-about-counterfeiting.php> (last visited Apr. 18, 2011); see also Sam Cocks, Note, *The Hoods Who Moved the Goods:*

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shows no signs of slowing down; it has grown over a startling 10,000 percent in the last twenty years.<sup>31</sup>

Not surprisingly, New York City is a leading area in the U.S. in the counterfeiting trade, exceeding \$80 billion annually.<sup>32</sup> This level of success is highly attractive to those in illegal markets—selling counterfeit products has become a significant source of income for gangs and has been linked with terrorist activity.<sup>33</sup> For example, funds from pirated CDs were traced to the terrorist group responsible for the Madrid train bombings in 2004<sup>34</sup> and it is believed that the 1993 bombing of the World Trade Center was funded in part by a counterfeit t-shirt ring.<sup>35</sup> Following the terrorist attacks on the United States of September 11, 2001, enforcement agencies have increased focus on locating and halting the source of the counterfeit products, thereby alleviating some of the burden traditionally carried by trademark owners.<sup>36</sup>

Sale of counterfeit products has also been linked to child labor and child trafficking.<sup>37</sup> Frequently there is no oversight over manufacturing facilities of counterfeit goods given their underground and illegal operations in developing countries which lack significant child labor laws.<sup>38</sup> Without any supervision, manufacturers of counterfeit goods are therefore free to exploit the socially irresponsible and otherwise prohibited resources of child labor.<sup>39</sup> A well-publicized problem, it is estimated that child workers make up as much as twenty percent of the workforce in China and contribute signifi-

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*An Examination of the Booming International Trade in Counterfeit Luxury Goods and an Assessment of the American Efforts to Curtail its Proliferation*, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 501, 506-09 (2007).

31. See *About Counterfeiting*, *supra* note 25.

32. *Counterfeit Goods are Linked to Terror Groups*, N.Y. TIMES, Feb. 12, 2007, <http://www.nytimes.com/2007/02/12/business/worldbusiness/12iht-fake.4569452.html>.

33. *Id.*

34. *Id.*

35. Kathleen Millar, *Financing Terror: Profits from Counterfeit Goods Pay for Attacks*, U.S. CUSTOMS TODAY (Nov. 2002), available at <http://www.cbp.gov/xp/CustomsToday/2002/November/interpol.xml>; see also David Johnston, *Threats and Responses: The Money Trail; Fake Goods Support Terrorism, Interpol Official is to Testify*, N.Y. TIMES, July 16, 2003, <http://query.nytimes.com/gst/fullpage.html?res=990DE7DF153CF935A25754C0A9659C8B63>.

36. See Millar, *supra* note 35.

37. DANA THOMAS, DELUXE: HOW LUXURY LOST ITS LUSTER 205 (2007).

38. *Id.* at 287-88.

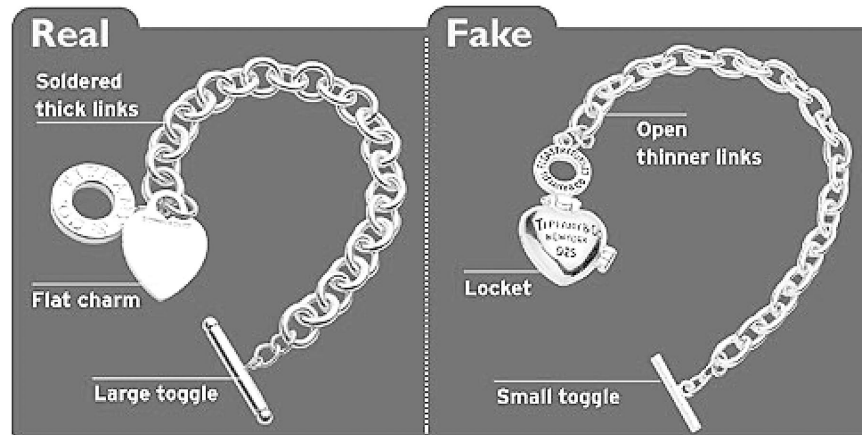
39. *Id.*; see also Maruxa Relano, Ernie Naspretto & Michael White, *Girl Who Came to U.S. for School Busted at Illegal Sweatshop*, N.Y. DAILY NEWS (Oct. 9, 2007), available at [http://www.nydailynews.com/news/ny\\_crime/2007/10/09/2007-10-09\\_girl\\_who\\_came\\_to\\_us\\_for\\_school\\_busted\\_at-4.html](http://www.nydailynews.com/news/ny_crime/2007/10/09/2007-10-09_girl_who_came_to_us_for_school_busted_at-4.html).

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cantly to the manufacture of counterfeit products.<sup>40</sup> This cheap and “illegal” workforce lowers the cost of manufacture and increases the profits associated with the goods and fosters the replica industry. The seemingly benign nature of counterfeit goods is actually a complicated and interwoven problem that cannot be ignored.

Trademark owners responded to the increase of replica goods by becoming savvier in the detection of illegitimate products by developing minor security details to distinguish authentic products from fakes.<sup>41</sup> However, the creators of replica goods remain current with technology and the latest trends of counterfeit detection, and so they mimic even the security details.<sup>42</sup> Unless a consumer is well informed about the particular characteristics of the authentic product, it is difficult to discern whether a product is real or fake:



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Trademark owners are developing disguised features that are not easily detected. For example, a German textile manufacturer has recently created a fabric “DNA” that utilizes a secret chemical serving as an identifier of a legitimate product.<sup>44</sup> The fabric DNA is

40. Jan Goodwin, *The Human Cost of Fakes*, HARPER’S BAZAAR (Jan. 1, 2006), available at <http://www.jangoodwin.com/articles/thehumancostoffakes.pdf>.

41. See Slocum, *supra* note 4, at 4.

42. *Id.*

43. *Countering Counterfeits*, CONSUMER REP. (Aug. 2007), [http://www.consumerreports.org/cro/money/shopping/shopping-tips/ebay-8-07/counterfeit-goods-/0708\\_ebay\\_counter\\_1.htm](http://www.consumerreports.org/cro/money/shopping/shopping-tips/ebay-8-07/counterfeit-goods-/0708_ebay_counter_1.htm).

44. Leslie Meredith, *Textile “DNA” Thwarts Designer Counterfeits*, MSNBC.COM, [http://today.msnbc.msn.com/id/39856131/ns/technology\\_and\\_science-innovation/](http://today.msnbc.msn.com/id/39856131/ns/technology_and_science-innovation/) (last updated Oct. 26, 2010).



verified by a handheld scanner and used to distinguish authentic product from counterfeits.<sup>45</sup> This traceable “DNA” can be incorporated in clothing, handbags, and shoes and used to prevent the importation and sale of replica products.<sup>46</sup>

Trademark owners must constantly amend their manufacturing strategies in order to stay ahead of and continue to distinguish their products from the expanding replica market. Replica manufacturers also try to remain as current and relevant as possible because they want to capitalize on the popularity of a particular fashionable product.<sup>47</sup> For instance, counterfeiters manufactured and tried to sell mini iPhones, reacting to a simple rumor that Apple was intending to release a similar product in the near future.<sup>48</sup> While the mini iPhones were not successful, since it was clear they were fake products because the full-priced version did not exist, this stunningly demonstrates how sophisticated and organized counterfeiting has become.<sup>49</sup> Not just an existing product, but even the *possibility* of a new product launch led replica sellers to anticipate how the product would look and function.

Capitalizing on the popularity of the Internet, online communities such as the “Replica Watch Collector Club” and “The Replica Collector” were created, as were transient websites exclusively featuring replica products.<sup>50</sup> These websites unabashedly label the products as “replica” goods.<sup>51</sup> Any person searching for a cheap version of their favorite goods can find and access them on a multitude of websites. This access has introduced counterfeit goods into every home in the world that has an Internet connection. The counterfeit market is no longer limited to the street corner of a large city.<sup>52</sup> This universal access breaks down yet a further barrier and legitimizes the act of purchasing a replica counterfeit good. The consumer cannot help but wonder: if the availability of replica

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45. *Id.*

46. *Id.*

47. Karl Barnfather, *Fake Mini iPhones Ring Alarms for Apple and Hi-tech Manufacturers*, SUNDAY TIMES, Jan. 15, 2009, <http://business.timesonline.co.uk/tol/business/law/article5511231.ece>.

48. *Id.*

49. *Id.*

50. Richard Brown, *A Brief History of Replica Watches: How the Internet Builds Community Around Counterfeit Goods*, KNOL: A UNIT OF KNOWLEDGE, <http://knol.google.com/k/richard-brown/a-brief-history-of-replica-watches/24euhkg2oamr0/4#> (last visited Apr. 18, 2011).

51. *Id.*

52. *Examining the Theft of American Intellectual Property at Home and Abroad: Hearing Before the S. Comm. On Foreign Relations*, 107th Cong. (2002).

products is so blatant, how bad or how illegal can it be? An oft cited consumer perception is that luxury designers charge too much for their products.<sup>53</sup> This serves as a justification for this form of infringement. Consumers that know they are purchasing a fake product rationalize that the purchase is acceptable; if the trademark owner simply did not charge so much for its goods, they could and possibly would buy the authentic version.<sup>54</sup> However, even this point of view only accounts for those that knowingly purchased replica goods. As discussed in more detail below, there is also a large market of disguised replica products that are not identified as being either “replica” or “counterfeit.”<sup>55</sup>

The presence of replica goods has confused the public about what constitutes a “replica” and whether or not it is illegal to sell “replica” goods. The average consumer is not well versed in the details of trademark law. By referring to these products as “replicas” instead of “counterfeit” products, the sellers erase the social stigma attached to purchasing counterfeit products. The misleading name “replicas” reinforces the fiction that these counterfeit products are just harmless, legal (or at least not illegal) copies.<sup>56</sup> A website selling “replica” goods offers the following explanation as to why their “genuine” replica watches differ from “fake” watches:

A replica watch should not be confused with the fake watch as the first one is a perfect clone of the original while the second one doesn't usually comply with the genuine product. The Swiss replicas and the replicas UK that we are happy to offer you repeat every detail of the design. They impress by the exactitude of duplication which you can never feel with the fake watch . . . .

We guarantee that every product you see in our store is a luxury replica, a precise and thorough copy watch of the worldwide recognized manufacturer. We don't sell replica fake watches nor designer fake watches and our suppliers never deal with this kind of products [sic]. So when you buy a replica watch in our store you get the best replica in UK.<sup>57</sup>

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53. See Rebecca Quick & Ken Bensinger, *The Dark Side of e-commerce More Counterfeiters are Using the Internet to Hawk Designer Fakes*, WALL ST. J. ONLINE (2001), <http://www.diogenesllc.com/wsjonline.pdf>.

54. See *id.*

55. See generally *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).

56. *Id.*; see also Slocum, *supra* note 4, at 6.

57. PERFECT-WATCH, <http://perfect-watch.com/index.asp> (last visited Apr. 18, 2011).

This type of rationalization legitimizes the customer's desire to purchase a "replica" watch since it is distinguished in the consumer's mind (albeit wrongly) from a "fake" watch.<sup>58</sup> The fact remains that whether the products are called fake or replica goods, they are still illegal and unauthorized copies.

Give credit where it is due. Whoever was the first to concoct "replica" as a euphemism for counterfeit did so by a stroke of genius. One can speculate that the surge in popularity of counterfeit products is due in part to the simple use of "replica" instead of "counterfeit" to describe the goods since it removes the stigma associated with buying them. Consider another replica disclaimer discussing why and how these are simply "replicas" such as for theatrical purposes:

This site is in no way affiliated with, representing, associated or sponsored by Adidas, Air Jordan, Burberry, Chanel, Converse, Gucci, Hermes, Louis Vuitton, Manolo Blahnik, Nike, Prada, Timberland, Oakley or any other above mentioned name brands or their products. We do not represent our replica products to be original nor do we represent that they are exact copies and they are being sold only for novelty or educational purposes, therefore, they do not violate any copyright laws.<sup>59</sup>

One replica website even claims that the real trademark owners are prohibited from reviewing these websites based on "Bill Clinton's 1995 Internet Privacy Act":

Disclaimer:

By viewing this page and any other page enclosed in this site, you agree to such terms. If you are affiliated with or working for Rolex or any of the enclosed name brand mentioned products either directly or indirectly, or any other related group, or were formally a worker you CANNOT enter this web site, cannot access any of its files and you cannot view any of the HTML files. If in fact you are affiliated or were affiliated with the above said companies, by entering this site you are not agreeing to these terms and are violating code 431.322.12 of the Internet Privacy Act signed by Bill Clinton in 1995 and that means that you CANNOT threaten our ISP(s) or any person(s) or company storing these files, and CANNOT prosecute any person(s) affiliated with

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58. Slocum, *supra* note 4, at 6-7.

59. See *Internet Privacy Act 1995 (431.322.12) Scams*, LOSS PREVENTION CONCEPTS, LTD., [http://www.lpconline.com/internet\\_privacy\\_act.html](http://www.lpconline.com/internet_privacy_act.html) (last visited Apr. 18, 2011). This site explains how several websites use this disclaimer even though it is meaningless and protects neither the buyer nor the seller. *Id.*

this page which includes family, friends or individuals who run or enter this site.<sup>60</sup>

No such Act has ever existed. There is, of course, no shield to manufacturers, importers, or sellers of replica products from liability. The appearance of the disclaimer may persuade the consumer that the sale of the replica product is legal.<sup>61</sup> Replica websites also try to use the “collector” as justification for purchasing the replica product:

Why purchase a replica watch? There are many answers to this question. Most people would buy a replica because they want to look good, but simply cannot afford to spend a lot on a watch. Other people already have a real watch but want to purchase something identical so they can wear it without having to worry about it being damaged or lost. Some just simply are collectors who want to have a wide variety of watches to display.<sup>62</sup>

The reality of replica sales is quite different, of course. They are not purchased as collectibles or theatrical reproductions.<sup>63</sup> Consumers purchase them in lieu of the originals because they so precisely mimic the original.<sup>64</sup> Manufacturers, importers, and sellers of these products can be held liable for trademark infringement. The sophisticated world of replica goods even includes websites devoted to rating the quality of the replica sites and the replica goods sold on them.<sup>65</sup> The websites *Replica Watch Report* and *Rolex Magic* unabashedly provide guidance on how to purchase an illegal watch and what to look for in terms of quality, price, consumer satisfaction, and they even have consolidated this information into a book available for purchase.<sup>66</sup>

Unconcealed replicas, such as those found on these self-identified replica websites, need to be distinguished from the disguised

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60. IDOLREPLICAS.COM, <http://www.idolreplicas.net/disclaimer.php> (last visited Apr. 18, 2011).

61. See Slocum, *supra* note 4 (informing consumers that disclaimers may be scams). R

62. *Distinction Replicas*, ULTIMATE REPLICAS, [http://www.ultimatereplica-watch.com/?page\\_id=92](http://www.ultimatereplica-watch.com/?page_id=92) (last visited Apr. 18, 2011).

63. See *Why Buy Rolex Replicas?*, REPLICA REVIEWS 2, [http://www.replicareviews.net/articles/why\\_buy\\_rolex\\_replicas.pdf](http://www.replicareviews.net/articles/why_buy_rolex_replicas.pdf) (last visited Apr. 18, 2011); see also Slocum, *supra* note 4, at 5-6. R

64. Slocum, *supra* note 4, at 5-6. R

65. See REPLICA WATCH REPORT, <http://www.replicawatchreport.com/magazine/edition/New-Reports.html> (last visited Apr. 18, 2011).

66. *Id.*; ROLEX MAGIC, <http://www.rolexmagic.com/faq.htm> (last visited Apr. 18, 2011).

replica products passed off as legitimate goods, even though both are unauthorized and illegal copies. Certain online marketplaces, such as eBay.com, do not differentiate (for reasons discussed in detail below) between real and replica products.<sup>67</sup> This can lead to significant consumer confusion since consumers believe they are purchasing authentic products only at discounted prices.<sup>68</sup> Where the means of purchase appears legitimate, how is a consumer to know she is purchasing a counterfeit item?

As a consequence, the potential for concealment and confusion over the authenticity of the goods erodes consumer perception of legitimate products. Inevitably, the purchased replica item will not meet consumer expectations. The only way a trademark owner can protect the goodwill<sup>69</sup> associated with its marks is through regular and consistent enforcement aimed at limiting the availability of replica products in the market.

## II. ENFORCEMENT OF REPLICA GOODS

The most obvious harm done by replica goods is the deliberate exploitation of the value associated with the famous trademarks, which ultimately diminishes and dilutes this value by permeating the market with cheap versions. Some argue that the sale of blatant replica goods do not compete with the real items, since the consumers that want the real thing will pay for them.<sup>70</sup> But the abundance of replicas in the market lessens the exclusivity of the original item.<sup>71</sup> Wide-scale availability of replicas may deter some purchasers from buying the originals, out of concern that someone will believe that their expensive, genuine luxury product is a cheap fake. Replicas are also particularly damaging to sales of luxury goods that are either produced in limited quantities or sold in exclusive markets.<sup>72</sup>

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67. See *infra* Part II.B.

68. See generally *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 98 (2d Cir. 2010).

69. The goodwill of a trademark is the reputation that has been acquired and accumulated in connection with the trademark. The trademark serves as an indicator of source and in essence, a guarantee that products bearing that trademark will have the same characteristics and qualities as any other product bearing the same trademark. See *Crash Course on Trademarks*, IUS MENTIS, <http://www.iusmentis.com/trademark/crashcourse/introduction/> (last visited Apr. 18, 2011).

70. See *Why Buy Rolex Replicas?*, *supra* note 63, at 3.

71. *Hermes Int'l v. Lederer De Paris Fifth Ave., Inc.*, 219 F.3d 104, 108 (2d Cir. 2000).

72. See Ellie Mercado, Note, *As Long as "It" is Not Counterfeit: Holding Ebay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany, Inc.*,

The very nature of a trademark is to serve to identify the source of the goods and promote consumer confidence in the value and quality associated with the goods, coming from a recognizable source.<sup>73</sup> Post-sale confusion can be particularly detrimental to a trademark owner.<sup>74</sup> “[P]ost-sale confusion can occur when a manufacturer of knockoff goods offers consumers a cheap knockoff copy of the original manufacturer’s more expensive product, thus allowing a buyer to acquire the prestige of owning what appears to be the more expensive product.”<sup>75</sup> There is also significant harm to a consumer who is not aware the goods are fake, especially when purchasing goods from the secondary market.

A trademark owner having prior rights in a trademark has several options for pursuing infringement. The civil enforcement options generally available to a federally registered trademark holder include: the ability to file suit in federal court and enjoin further use of the infringing mark; conduct *ex parte* seizures of counterfeit goods; recover treble damages (defendant’s profits or plaintiff’s damages) and costs; recover statutory damages; destroy packaging/labels bearing (and the equipment/tools for producing) infringing marks; cause the forfeiture, cancellation, or transfer of infringing domain names; and prevent the importation of infringing goods by recording with U.S. Customs.<sup>76</sup> Regardless of what the purveyors call them, replicas are counterfeit and subject to all these remedies.

The United States passed the Trademark Counterfeiting Act of 1984, which was later followed by the Anticounterfeiting Consumer Protection Act of 1996 and the Stop Counterfeiting in Manufacturing Goods Act of 2006.<sup>77</sup> This legislation tried to keep pace with the evolution and progression of counterfeit products, including

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28 CARDOZO ARTS & ENT. L.J. 115, 116 (2010), available at <http://www.cardozoelj.net/issues/10/Mercado.pdf>; Slocum, *supra* note 4, at 7.

73. See Slocum, *supra* note 4, at 6.

74. *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-LeCoultre Watches, Inc.*, 221 F.2d 464, 466 (2d Cir. 1955).

75. *Hermes Int’l*, 219 F.3d at 108 (citing *Mastercrafters Clock & Radio Co.*, 221 F.2d at 466); see also *Insty\*-Bit, Inc. v. Poly-Tech Indus., Inc.*, 95 F.3d 663, 672 (8th Cir. 1996); *Payless Shoesource, Inc. v. Reebok Int’l Ltd.*, 998 F.2d 985, 989 (Fed. Cir. 1993); *Polo Fashions, Inc. v. Craftex, Inc.*, 816 F.2d 145, 148 (4th Cir. 1987).

76. See Lanham Act, 15 U.S.C. §§ 1051-1141 (2006).

77. See Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, §§ 1-2, 120 Stat. 285, 285 (2006) (codified at 18 U.S.C. § 2320 (2006)); Anti-Counterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, § 3, 110 Stat. 1386, 1386 (1996) (codified at 18 U.S.C. § 1961(a)(3)); Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, § 1503, 98 Stat. 1837, 2179 (1984) (codified 18 U.S.C. § 2320).

those labeled as “replicas.”<sup>78</sup> In 1984, criminal penalties were introduced, as well as treble damages for civil liability, for those caught intentionally trafficking or attempting to traffic goods bearing a counterfeit mark.<sup>79</sup> In addition, if an offender knowingly or recklessly caused bodily injury while trafficking in counterfeit products, a twenty year sentence and/or a fine could be imposed.<sup>80</sup> The Lanham Act also permitted *ex parte* seizure of counterfeit products and related pertinent documents.<sup>81</sup> However, these penalties were considered insufficient to adequately address the problem, particularly in connection with the rising trend of organized crime in the counterfeit market.<sup>82</sup>

The 1996 Consumer Protection Act added statutory damages, as an alternative to actual damages, from \$500 to \$100,000 for each trademark infringed, and up to \$1,000,000 if the infringement was found to be willful.<sup>83</sup> This Act also permitted U.S. Customs to impose civil penalties on importers of counterfeit products<sup>84</sup> and amended the federal Racketeer Influenced and Corrupt Organizations Act (RICO) by adding trafficking in counterfeit goods or services as an offense.<sup>85</sup> RICO permits law enforcement to seize personal and real estate assets connected to the criminal activity, as well as counterfeit goods.<sup>86</sup> The 2006 Act criminalized the trafficking in counterfeit marks, including counterfeit labels, patches, wrappers, and emblems, thereby closing a loophole that previously permitted counterfeiters to sell counterfeit medallions not actually attached to goods or services.<sup>87</sup> Under the prior law, counterfeiters were merely manufacturing and selling labels containing registered trademarks to third parties that would then affix them to generic goods.<sup>88</sup> The manufacture and sale of the labels did not constitute trademark infringement, since they were not affixed to any goods or services.<sup>89</sup>

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78. See Slocum, *supra* note 4, at 10.

79. 18 U.S.C. § 2320(a); see *Louis Vuitton S.A. v. Spencer Handbags Corp.*, 765 F.2d 966, 971 (2d Cir. 1985).

80. 18 U.S.C. § 2320(a)(2).

81. 15 U.S.C. § 1116.

82. Cocks, *supra* note 30.

83. 15 U.S.C. § 1116.

84. 18 U.S.C. § 2320.

85. 18 U.S.C. § 1961 (1)(B).

86. H.R. REP. NO. 104-556, at 7 (1996).

87. See *United States v. Giles*, 213 F.3d 1247, 1251-52 (10th Cir. 2000).

88. *Id.*

89. See 152 Cong. Rec. S1367 (daily ed. Feb. 15, 2006).

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Often overlooked are the criminal charges associated with the sale of counterfeit products, including violation of the aforementioned anti-counterfeiting legislation.<sup>90</sup> The penalties include up to \$2,000,000 or ten years imprisonment, or both and up to \$5,000,000 and/or twenty years for subsequent convictions.<sup>91</sup>

The test for liability for the sale of a counterfeit product analyzes whether: (1) the trademark owner possesses a valid mark entitled to Lanham Act protection; and (2) the defendant used a similar mark in commerce in a manner likely to cause confusion among the relevant consuming public.<sup>92</sup>

Typically where the product is considered a “counterfeit” or “replica” the court will not even conduct the usual consumer confusion analysis for trademark infringement. “Replicas” are treated the same as “counterfeits.”<sup>93</sup> The fact that the goods and trademarks are exact replicas of the plaintiff’s goods demonstrates the likelihood of consumer confusion—it is inherent in the product itself.<sup>94</sup> A slightly different analysis exists at the criminal level, namely, the standard is section 2320 of the Lanham Act, which is narrower since it requires criminal intent and a finding that the counterfeit marks are “identical with, or substantially indistinguishable from” the alleged trademark.<sup>95</sup>

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90. While trafficking in counterfeit goods has been criminalized under 18 U.S.C. § 2320, it is largely underutilized in stopping counterfeiting activities. Between 2003 and 2008 only twenty-four cases were prosecuted under this provision in the Southern District of New York. *Tiffany (NJ) Inc. v. eBay, Inc.*, No. 04 Civ. 4607 (RJS), 2010 U.S. Dist. LEXIS 96596, at \*6-7 n.11 (S.D.N.Y. Sept. 10, 2010). For sanctions under § 2320, a defendant must “knowingly use” a counterfeit mark. 18 U.S.C. § 2320 (a).

91. 18 U.S.C. § 2320(a)(1).

92. *See Lorillard Tobacco Co. v. Jamelis Grocery, Inc.*, 378 F. Supp. 2d 448, 454 (S.D.N.Y. 2005).

93. *See, e.g. Gucci Am., Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228, 248 n.7 (S.D.N.Y. 2005) (explaining the terms “replica” and “counterfeit” are often used interchangeably). Replica goods are to be distinguished from “Gray market” goods, which are authentic products sold outside authorized distribution channels. *See Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 984 n.1 (9th Cir. 2008) *cert. granted*, No. 08-1423, 2010 U.S. LEXIS 3424 (Apr. 19, 2010). Gray market goods are typically sold at a lower price via discount wholesalers. *Id.*

94. *See Gucci Am., Inc. v. Duty Free Apparel, Ltd.*, 286 F. Supp. 2d 284, 287 (S.D.N.Y. 2003) (noting that “confusing the customer is the whole purpose of creating counterfeit goods”).

95. *See United States v. Foote*, 413 F.3d 1240, 1247 (10th Cir. 2005) (internal quotations omitted) (citing 18 U.S.C. § 2320(a), (e)(1)(A)(ii)).



### A. *Direct Infringement*

Because replica goods are the same as counterfeit goods, the infringement analysis remains the same. While sufficient remedies exist, the enforcement problem mainly exists at the investigative level; actually locating and naming a defendant in a federal infringement action is a challenge despite the openness of “replica” sales.

Finding replica goods is simple—a basic inquiry on the Google search engine will reveal countless “replica”-termed products.<sup>96</sup> But, identifying the sellers and sources of replica goods often proves futile. Given the transient nature of the replica industry, tracking down the offenders is particularly difficult. If an entity uses its true address in registering a domain name (which is rare) and a trademark owner is able to send a cease and desist letter, the replica purveyor may just shut down one domain and create a new one.<sup>97</sup> When a site closes down, the trademark owner can only speculate whether the cease and desist letter was effective or if the infringer will simply resurface under a different name.<sup>98</sup> Many domains contain the word “replica” as part of the Internet address. This does not appear to impact the frequency of registration of similar domains, despite the infringing content. Is this due to a general lack of oversight or is it due to the use of “replica” to describe the goods?

Popular commercial registrars such as godaddy.com, ENOM, and Network Solutions provide efficient and cost effective ways for identifying and purchasing available domains, including ones that contain federally protected trademarks.<sup>99</sup> The unauthorized use of a registered trademark constitutes an infringing use.<sup>100</sup> However, at the domain registration level, there is little (if any) policing or scrutiny of those applying for domains.<sup>101</sup> Due to the sheer number of replica websites, domain registrars do not appear to police the domains on this basis.

Attempts to contact the registrants quickly prove futile. Cease and desist letters are promptly returned to sender, addressee un-

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96. Slocum, *supra* note 4, at 5.

97. *Id.* at 13-14.

98. *Id.*

99. *See generally* GO DADDY, [www.godaddy.com](http://www.godaddy.com) (last visited Feb. 19, 2011); ENOM, [www.enom.com](http://www.enom.com) (last visited Apr. 18, 2011); NETWORK SOLUTIONS, [www.networksolutions.com](http://www.networksolutions.com) (last visited Apr. 18, 2011).

100. Slocum, *supra* note 4, at 13-14.

101. *Id.*

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known. It is very unlikely that a person dealing in replica goods provides accurate contact information when obtaining the domain registration. The remaining recourse for the trademark owner is to contact the domain registrar.<sup>102</sup> Registrars are usually unwilling to disclose contact information, including credit card or other billing information. Cease and desist letters to the registrar are often unanswered. Occasionally, the registrar will contact the registrant in response to a complaint that often results in a shift of the infringing content to a new domain address.<sup>103</sup> A trademark owner's resources are wasted. Cooperation between registrars and trademark owners, necessary for policing replica websites, is frequently absent due to the registrar's lack of liability.

The Internet Corporation for Assigned Names and Numbers (ICANN) is a not-for-profit public-benefit corporation that manages the Internet domain name system.<sup>104</sup> According to ICANN's User Accreditation Agreement (revised May 21, 2009), in order for an entity to be accredited by ICANN to act as registrar for top-level domains of the Internet domain system, it is required to obtain and make available for the public the names and postal address of the registered name holders, and the entity can lose its accreditation if it fails to adhere to the accreditation agreement.<sup>105</sup> A registrar is required to cancel the name registration if the registered name holder fails to provide accurate and reliable contact information.<sup>106</sup>

This recourse for a trademark owner is largely underutilized. Replica websites typically have incorrect contact information. There is little serious pressuring on registrars and a lack of pressure from ICANN in enforcement, despite the overt use of illegal content on the replica websites. A minimum level of oversight could prevent some counterfeiters from registering and creating websites that sell counterfeit products.

Trademark owners must investigate physical addresses for the manufacture or sale of the counterfeit products. Without this, it is difficult to hold any party liable for direct infringement. The majority of goods are manufactured abroad and smuggled into the United States—for example, approximately 80% of the goods seized at

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102. *Id.* at 13-14.

103. *Id.*

104. See *About*, INTERNET CORP. FOR ASSIGNED NAMES AND NUMBERS, <http://www.icann.org/en/about/> (last visited Apr. 18, 2011).

105. ICANN Registrar Accreditation Agreement, ICANN § 2.1, (May 21, 2009), available at <http://www.icann.org/en/registrars/ra-agreement-21may09-en.htm>.

106. *Id.* § 2.1 3.7.7.2; see also *id.* § 3.7.7.9.

U.S. borders originate from China.<sup>107</sup> “As a way to circumvent mass importation and potential seizure, some counterfeit products are shipped directly [from abroad] to the buyer.”<sup>108</sup> Replica watches “are sent via an international carrier, bearing some innocuous description, such as ‘toy’ or ‘gift.’” Replica websites themselves indicate that they are able to circumvent inspection at the United States border:

Q: Will [I] have problem [sic] with customs?

A: We have many years experience in shipping replicas worldwide. We guarantee that the items will be sent to you directly. We can let our replicas pass the customs safely by our special way.<sup>109</sup>

The package escapes scrutiny from customs and passes through with no concern. In other instances, tags and labels bearing the counterfeited trademarks are applied once they arrive in the U.S.<sup>110</sup> Capturing the goods at the border can prove futile. Limiting the prevalence of all counterfeit products in the U.S. must result from other enforcement strategies.

#### B. *Contributory Infringement—Secondary Liability*

In light of difficulties in identifying and locating the manufacturers, importers, and sellers of the counterfeit products, trademark owners have sought restitution from various third parties that help facilitate the sale of the replica/counterfeit products.<sup>111</sup> Because of the lucrative business of selling replica-coined goods, third parties frequently look to capitalize on the counterfeit market.<sup>112</sup> Trademark owners are just beginning to explore holding these third parties accountable, and the landscape of trademark enforcement

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107. *IACC Recommends Highest Scrutiny for China in 2008 Special 301 Comments to U.S. Trade Representative*, INT’L ANTI-COUNTERFEITING COALITION, (Feb. 11, 2008), <http://www.iacc.org/news-media-resources/press-releases/iacc-recommends-highest-scrutiny-for-china.php>.

108. Slocum, *supra* note 4, at 17.

109. *FAQ*, CHINA REPLICAS, <http://www.replicahandbags-china.net/FAQ.htm> (last visited Apr. 18, 2011); *see also* REPLICAS-MANIA.COM, <http://www.replicamania.com/shipping.php> (last visited Apr. 18, 2011).

110. *United States v. Giles*, 213 F.3d 1247, 1248 (10th Cir. 2000).

111. *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 793 (9th Cir. 2007) *cert. denied*, 553 U.S. 1079 (2008); *Gucci Am., Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228, 236 (S.D.N.Y. 2010).

112. *Gucci Am., Inc.*, 721 F. Supp. 2d at 236.

concerning replica goods is evolving.<sup>113</sup> What remains lacking, however, is any acknowledgement of the use of “replica” as a mere alternative means to describe counterfeit products and the impact this has had on the counterfeit market in general. The use of “replica” is generally directed to consumer products such as jewelry, watches, handbags, and clothing. While it is clear that replica equals counterfeit,<sup>114</sup> there is no analysis on the shift of referring to products as “replicas” as a way to either avoid liability or confuse the public as to the authenticity of the product.

The prevalence of so-called replicas/counterfeits has lead trademark owners to other strategies as well. In the United States District Court in the Southern District of New York, Plaintiff Gucci America, Inc. (Gucci) filed suit against three separate credit card processors that knowingly sought out “high risk” businesses, and offered its processing services to a website that openly sold replica products, including those bearing the famous GUCCI marks.<sup>115</sup> Gucci alleged that absent the knowing participation of these third parties, counterfeiters would be unable to sell such high volumes of replica goods.<sup>116</sup> Gucci sought damages for direct infringement and counterfeiting, as well as contributory infringement and vicarious liability for trademark infringement and counterfeiting, among other causes of action.<sup>117</sup>

This complaint was filed in August of 2009, and the defendants moved to dismiss Gucci’s claims for lack of jurisdiction and relying on the Ninth Circuit decision in *Perfect 10, Inc. v. Visa International Services Ass’n*<sup>118</sup> on the grounds that the defendants did not have sufficient involvement in the sale of the counterfeit products to be held liable.<sup>119</sup> The defendants’ motion to dismiss was denied by the court on the ground that Gucci could proceed with its claims of contributory infringement provided Gucci could show that the defendants either intentionally induced infringement through the sale

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113. See generally *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010); *Louis Vuitton S.A. v. Spencer Handbags Corp.*, 765 F.2d 966 (2d Cir. 1985); *Gucci Am., Inc.*, 721 F. Supp. 2d at 228; *Complaint Steven Madden Ltd. v. eBay Inc.*, No. 09-cv-6484, 2009 WL 2220993 (S.D.N.Y. July 21, 2009).

114. *Gucci Am., Inc.*, 721 F. Supp. 2d at 248 n.7.

115. *Id.* at 236-38.

116. *Id.* at 240.

117. *Id.*

118. *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788 (9th Cir. 2007) cert. denied, 553 U.S. 1079 (2008) (holding that credit card company could not be held contributorily liable for online merchant’s unauthorized display of copyrighted images).

119. *Gucci Am., Inc.*, 721 F. Supp. 2d at 254.

of counterfeit goods or knowingly supplied services to counterfeit websites and exhibited sufficient control over infringing activity.<sup>120</sup> The court did find, however, that Gucci had not pleaded sufficient facts to support its allegations of direct infringement or vicarious infringement based on the absence of any facts demonstrating a use in commerce by the defendants as required for direct infringement, or a partnership or joint venture with a direct infringer for vicarious liability.<sup>121</sup>

The parties subsequently settled the dispute via a confidential settlement agreement.<sup>122</sup> While the court did not specifically rule on the merits of Gucci's contributory infringement claims,<sup>123</sup> the allegations made by Gucci against this third party have become necessary in enforcement of trademark rights. However, can third parties sufficiently remove themselves from liability for acts of contributory trademark infringement, even though they directly enable the infringement? In certain instances, the answer is yes.

The popular Internet auction site, eBay, is a marketplace that facilitates the sale of a wide range of goods by third parties to third party purchasers, which organizes sales through an online bidding process in exchange for a commission. Because of its immense worldwide popularity eBay.com is also a tremendous source of counterfeit products.<sup>124</sup> As pleaded by Tiffany, Inc., in *Tiffany (NJ) Inc. v. eBay Inc.*, approximately 70% of certain TIFFANY branded products sold on eBay are counterfeit, including TIFFANY branded jewelry.<sup>125</sup> This high number of counterfeit products is offered for sale by anonymous third parties despite eBay's proactive anti-counterfeiting efforts, which include keyword searches for counterfeit products labeled as such and its Verified Rights Owner Program (VeRO) which offers a take-down service to individually

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120. *Id.* at 250-53.

121. *Id.*

122. *See* Stipulation and Order of Dismissal, *Gucci Am., Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228 (S.D. N.Y. 2010) (No. 09-cv-6925), available at <http://docs.justia.com/cases/federal/district-courts/new-york/nysdce/1:2009cv06925/350358/91/>.

123. *See id.*

124. *See* Doreen Carvajal, *eBay Ordered to Pay \$61 Million in Sale of Counterfeit Goods*, N.Y. TIMES, July 1, 2008, <http://www.nytimes.com/2008/07/01/technology/01ebay.html>.

125. *Tiffany (NJ) Inc. v. eBay Inc.*, 576 F. Supp. 2d 463, 482, 486 (S.D.N.Y. 2008) (holding that Tiffany's process of determining counterfeit products was "flawed" but acknowledging that a significant number of certain TIFFANY branded products sold on eBay were indeed counterfeit).

reported instances of infringement.<sup>126</sup> As a result, “replica” versions are disguised as real products to make it past eBay’s scrutiny. Generally, this type of product, namely jewelry, would be openly labeled as “replica.” Because eBay employs specific keyword searches (including the term “replica”—eBay clearly recognizes that replicas and counterfeits are the same) and the take-down service, it was found not liable for direct or contributory trademark infringement in connection with the sale of counterfeit TIFFANY branded products despite its general knowledge of the sale on eBay’s website.<sup>127</sup>

The district court ultimately found that regardless of the high rate of counterfeit products sold on eBay.com, it was the trademark owner’s obligation to police every sale of TIFFANY branded goods, especially since eBay sells legitimate Tiffany products, and, because it never took physical possession of the goods.<sup>128</sup> Moreover, whenever eBay was notified by Tiffany of a particular counterfeit item, it removed the listing (although notwithstanding eBay’s prompt removal of the infringing items, it still maintained an estimated 70% counterfeit rate of TIFFANY branded products).<sup>129</sup> It was too burdensome for eBay to guarantee that all of the TIFFANY products sold on its site were legitimate since it would ultimately limit the lawful secondary market for goods.<sup>130</sup>

This decision places the burden squarely with the trademark owner, despite eBay’s knowledge that a high rate of counterfeit TIFFANY branded products are sold. While a trademark owner, in theory, can control the direct sale of its products by selling its goods through controlled channels, it has very little control over the secondary market.<sup>131</sup>

Tiffany appealed the district court decision to the United States Court of Appeals for the Second Circuit.<sup>132</sup> The Court of Appeals for the Second Circuit upheld the district court ruling with regard to direct and contributory trademark infringement, and trademark dilution.<sup>133</sup> In reasoning that eBay did not contribute to

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126. *Id.* at 478.

127. *Id.* at 526-27. Tiffany asserted claims of direct trademark infringement, trademark dilution, and false advertising. *Id.* at 493.

128. *Id.* at 525-27.

129. *Id.* at 490 n.23.

130. *Id.* at 509-10.

131. *See* Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 97 (2d Cir. 2010), *cert.denied*, 131 S. Ct. 647 (2010).

132. *Id.* at 101.

133. *Id.* at 113-14.

the infringement of Tiffany's trademarks, the court of appeals affirmed the lower court's finding that while eBay possessed generalized knowledge of counterfeiting, it lacked the actual knowledge of infringement (in order to satisfy the "knows or has reason to know" test established in *Inwood*) aside from those instances where it acted to promptly remove counterfeit products following notification by Tiffany.<sup>134</sup>

The court remanded on the issue of false advertising due to eBay's policy of promoting sales of TIFFANY branded products that could be counterfeit.<sup>135</sup> The question that remains to be determined is whether its advertisements on third-party search engines are misleading to consumers.<sup>136</sup> On August 27, 2010, Tiffany filed a petition for a Writ of Certiorari appealing the Second Circuit's decision.<sup>137</sup>

Contrasting with *Tiffany (NY) Inc. v. eBay Inc.* are the facts alleged in a complaint filed on July 21, 2009 in the Southern District of New York captioned *Steve Madden Ltd. v. eBay Inc.*<sup>138</sup> As alleged by Steve Madden Ltd., the manufacturer and seller of clothing and footwear bearing the STEVE MADDEN and MADDEN trademarks, it never manufactured or authorized the sale of watches bearing its marks, and any watches sold on eBay bearing the MADDEN marks therefore must be unlicensed and/or counterfeit watches.<sup>139</sup> The fake Madden watches are essentially a phantom replica since they do not replicate an authentic watch. This may serve as a key distinguishing factor from the *Tiffany* case and may be sufficient to attribute liability to eBay since it has been put on actual notice that every watch bearing Steve Madden's trademarks is counterfeit. Therefore, eBay cannot sell any legitimate watches bearing Steve Madden's trademarks. Based on the policing efforts highlighted in the *Tiffany* case,<sup>140</sup> eBay should be able to prevent the sale of any watch bearing the MADDEN marks, through its keyword search tools. eBay's inability to inspect the goods should prove to be irrelevant in terms of its liability.<sup>141</sup> Un-

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134. *Id.* at 114.

135. *Id.*

136. *Id.* at 113-14.

137. *Id.*

138. Complaint *Steve Madden Ltd. v. eBay Inc.*, No. 09-cv-6484 (S.D.N.Y. dismissed Aug. 5, 2009).

139. *Id.* at 1-2.

140. *Tiffany (NJ) Inc.*, 600 F.3d at 98-100.

141. See *Tiffany (NJ) Inc. v. eBay Inc.*, 576 F. Supp. 2d 463, 482, 507 (S.D.N.Y. 2008).

fortunately, this issue remains open as the parties settled the dispute shortly after the matter was filed.

The landscape of secondary liability continues to evolve. In a recent decision, *Louis Vuitton Malletier, S.A., v. Akanoc Solutions, Inc.*,<sup>142</sup> a jury found that the defendants' Internet hosting business was liable for contributory trademark and copyright infringement because of its direct involvement in hosting websites that sold counterfeit Louis Vuitton goods.<sup>143</sup> Many of the websites hosted by the defendants overtly offered for sale "replica" goods.<sup>144</sup> Absent the defendants' participation in hosting these websites, there would be no access to the infringing content.<sup>145</sup>

In another significant decision on secondary liability, the United States District Court in *Viacom International Inc. v. YouTube, Inc.* found YouTube not liable for contributory copyright infringement for its role in hosting unauthorized copies of copyright protected videos.<sup>146</sup> Similar to eBay's role described above, YouTube maintains a system of removing infringing videos once contacted by the copyright owners so its actual knowledge of infringement is limited to those instances where action is taken to remove the content.<sup>147</sup> YouTube has general knowledge that there are unauthorized copies of protected works contained within its website, but until it is contacted by a copyright owner, it cannot determine which content is legitimate.<sup>148</sup> While the scope of this decision is premised on the safe harbor provision of the Copyright Act, instead of liability for trademark infringement, it further represents the reluctance of courts to hold third parties liable for another's infringing acts based on simple generalized knowledge.<sup>149</sup> The YouTube case mirrors the problems faced by trademark owners in holding parties liable for counterfeiting—it is difficult to identify the source of the infringement.

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142. *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, No. C07-03952 JW, 2010 WL 5598337, at \*1, \*3 (N.D. Cal. Mar. 19, 2010).

143. *Id.*

144. *Id.* at \*9.

145. *See generally id.* at \*19.

146. *Viacom Int'l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 529 (S.D.N.Y. 2010).

147. *Id.* at 519, 526.

148. *Id.* at 528.

149. *Id.* at 516; *see also* 17 U.S.C. § 512(c) (2006).



### III. EXTENDING THE LIABILITY FOR SALE OF REPLICA GOODS

Liability for the sale of counterfeit items can extend to the sale of a single good.<sup>150</sup> Infringement is not limited to large-scale operations. Manufacturers of replica products have another way to infiltrate the marketplace. Replica goods are also sold on a smaller scale, including by individuals and small businesses, such as private “purse parties” or other similar events where individuals sell replica products within their communities for income. This type of sponsored social event will further lessen the stigma associated with selling and purchasing counterfeit products. The transaction occurs in someone’s home and typically originates with a friend or acquaintance. These products are generally promoted as “inspired by,” “imitation,” or “replica,” anything but “counterfeit.”<sup>151</sup> Little do they realize, under the Lanham Act, the host of such a party is liable for selling counterfeit merchandise.<sup>152</sup> Of course, due to the difficulties in identifying these events, the cost of enforcement actions and perhaps the negative public image of shutting down social events, trademark owners rarely go after such small scale operations. There are few statistics on the enforcement actions against conduct such as purse parties. Nonetheless, it has been reported that individuals have been charged with criminal penalties for hosting such events.<sup>153</sup>

The anti-counterfeiting laws of the United States do not extend any liability to the consumer of a counterfeit or replica good, even where the consumer knowingly and intentionally purchases the illegal products. Imposing liability could certainly be effective in diminishing the aura of respectability to replicas. A few countries have imposed liability on the consumer.<sup>154</sup> Particularly in France, there is civil and criminal liability for those that purchase counterfeit products.<sup>155</sup> The penalties include fines of up to 300,000 Eu-

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150. *United States v. Foote*, 413 F.3d 1240, 1246 (10th Cir. 2005).

151. See FAUXFASHION.NET, <http://www.fauxfashion.net/> (last visited Apr. 18, 2011); *How Do I Start a Purse Party Business*, LOVE TO KNOW, [http://business.lovetoknow.com/wiki/How\\_Do\\_I\\_Start\\_a\\_Purse\\_Party\\_Business](http://business.lovetoknow.com/wiki/How_Do_I_Start_a_Purse_Party_Business) (last visited Apr. 18, 2011).

152. Lanham Act, 15 U.S.C. §§ 1051–1141 (2006).

153. See Kate Betts et al., *The Purse-Party Blues*, TIME, Aug. 2, 2004, <http://www.time.com/time/magazine/article/0,9171,994774-1,00.html>.

154. Amanda Silverman, *Draconian or Just? Adopting the Italian Model of Imposing Administrative Fines on the Purchasers of Counterfeit Goods*, 17 CARDOZO J. INT’L & COMP. L. 175, 187-90 (2009).

155. *Id.* at 175.

ros<sup>156</sup> and three years of imprisonment, if it can be proven that the consumer acted in bad faith, namely, that the consumer had knowledge that the goods he or she purchased were counterfeit.<sup>157</sup>

It is difficult to convince consumers that replica goods are harmful, absent some personal liability. United States Customs even permits those traveling to the United States to import one counterfeit good, such as a handbag or item of clothing, so long as it is intended for personal use.<sup>158</sup> How can trademark owners persuade consumers that all counterfeiting is a crime, when certain circumstances allow—or in the case of replicas, at least appear to condone—counterfeit products?

#### CONCLUSION

The surest way to remove counterfeit products from the marketplace is to discourage consumers from purchasing them: no demand, no supply. However, this is far from a simple solution. Consumers with past preferences for counterfeit products are likely to be repeat purchasers.<sup>159</sup> One way to discourage counterfeit purchases is to increase public awareness of the illegal nature, and consequences, of such action, including the strong connection between counterfeit products and criminal activity, child labor, and terrorism. However, there is a sharp divergence in consumer perception of counterfeit luxury goods and other counterfeit goods, and the replica moniker only reinforces these artificial distinctions. The underlying harm remains the same, but certain consumers, while willing to openly purchase counterfeit clothing and handbags, understandably do not want to purchase counterfeit goods such as pharmaceuticals, health care products, and airline parts. Convincing the public that they should view all counterfeit goods the same is the challenge.

It stands to reason that if the replica websites all designated their activities as “counterfeit” or even some slightly less charged, more neutral term like “copies,” there is little doubt that they

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156. On March 2, 2011, 300,000 Euros was the equivalent of \$414,402. Currency Converter, OANDA, <http://www.oanda.com/currency/converter/> (under “currency I have” select “euro”; then enter the amount 300,000; under “currency I want” select “U.S. dollar”; then hit enter) (last visited Mar. 2, 2011).

157. Silverman, *supra* note 154, at 190.

158. *Id.* at 200; Peter Quinter, *Yes, You May Legally Import Counterfeit Merchandise into the United States*, CUSTOMS AND INT’L TRADE LAW BLOG (Jan. 24, 2010), <http://www.customsandinternationaltradelaw.com/2010/01/>.

159. See Boonghee Yoo & Seung-Hee Lee, *Buy Genuine Luxury Fashion Products or Counterfeits?*, 36 *ADVANCES IN CONSUMER RES.* 280, 280 (2009).

would be much more subject to attack, and perhaps far less prevalent. Moreover, as discussed above, the coinage of the term replica has, by design or otherwise, provided an enormous marketing advantage to these products' sellers. Replica connotes some, if not genuine, at least permissible purpose, though virtually all the replica sites are simply counterfeit purveyors. Use of a much more user-friendly term like replica makes people more comfortable doing something that perhaps they might wish to do but would not do if the activities were designated per se illegal. One choice is to propose amendments to the Lanham Act to specifically insert the word replica into the statutory definition of counterfeit. This may provide a stronger enforcement tool to brand owners.

There is also a potential public education solution. It is important for brand owners to tell consumers to just say no to "replicas." Certain groups most affected, including luxury designers, could include in advertising and marketing campaigns that replicas are counterfeit. Certain campaigns over the years have been successful when carried out by brand owners simply as a small tagline at the bottom of genuine ads.<sup>160</sup> In the case of luxury goods it could be: remember "replicas are counterfeit." Whether brand owners have the will to do this and whether marketing and advertising people will find the benefit outweighs the message detracting from the overall sales message, remains to be seen.

Brand owners certainly can attack replicas at every corner and insist that courts find that replicas violate the Lanham Act. Any hint of acquiescence by brand owners to the replica lingo will strengthen the position of the sellers and the seeming social acceptability of these goods as simply fun distractions or lawful alternative ways for people to participate in the luxury goods market. They are not lawful alternatives, of course. Replica site owners do a good job of hiding offshore, at unknown locations, and conducting business through a series of middlemen in order to mask their true identities.

Brand owners could also get the message out to the media. There are a multitude of broadcasting cable channels with news reporting and other features on business and legal and consumer issues. There is the unlimited scope and potential of social media.

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160. Xerox ran a successful campaign focused on stopping the public's use of Xerox as a verb for photocopying documents. See Noam Cohen, *The Power of the Brand as Verb*, N.Y. TIMES, July 18, 2009, <http://www.nytimes.com/2009/07/19/weekinreview/19cohen.html>.

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Brand owners can certainly take additional steps to publicize every successful effort at shutting down these illegal sellers.

In a best case scenario, the whole mentality that replica counterfeits are a harmless hobby will become extinct. Whether purse parties, street vendors, or tourists traveling to the major cities to buy these goods, often all invoking the wishful thinking folklore that replica counterfeits are somehow legitimate or permitted, or even in the brand owners worst nightmare, that replicas are just wholesale cost versions of the name brand item (forgetting about the price spread between the \$35.00 counterfeit and the \$2000.00 original). Hope springs eternal. A successful informational attack on online retailers and consumers regarding the ethical and legal implications of replica goods is necessary in order to make some headway in enforcement. From a strictly legal standpoint, although it is highly desirable to amend the statute to expressly include replicas in the counterfeit definition, it is not necessary because counterfeits by any name are still illegal. Trademark owners must be proactive and search for alternative ways to enforce their intellectual property rights, including holding third parties liable for infringement.