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**Customs and Border Protection:****The Other Patent and Trademark Office**

This column has commented extensively on the intersection or overlap of customs and trade laws with the laws that govern other functional areas, such as international tax and transfer pricing and intellectual property rights (IPRs), which are of interest to tax professionals.<sup>1</sup> As the title connotes, this month's column is all about the last topic, the role of U.S. Customs and Border Protection (CBP) in IPR. Given the popularity of IP migration strategies in international tax planning, tax professionals should be current on these developments in IPR.

Readers of earlier columns in this space will know that CBP plays a vital role in IPR.<sup>2</sup> It falls to CBP to enforce exclusion orders issued by the U.S. International Trade Commission (ITC) in section 337 cas-

es, which are primarily concerned with patent rights.<sup>3</sup> Moreover, there are significant benefits accruing to trademark owners who have recorded with CBP their IPRs that have been registered with the Patent and Trademark Office (PTO). Goods deemed to be counterfeit are subject to seizure and their importers are liable for significant civil penalties as well.<sup>4</sup>

The customs regulations expressly provide for the recording of trademarks, trade names, and copyrights. The process is fast, easy, and relatively inexpensive, and the recording lasts for the lifetime of the PTO registration or up to 20 years.<sup>5</sup> This, too, was discussed in earlier columns.<sup>6</sup>

So, for the two parties directly concerned with an issue about one of these IPRs

at the border, the importer of an article and the owner of one of the IPRs, the beginning of the process is the recording of the IPR. The end of the process might be a detention of the article or a determination that the article violates the recorded IPR and a subsequent seizure and penalty assessment. What usually escapes notice is what happens in the interim, between the recording of the IPR and the action taken at the port by CBP on a later entry of merchandise. This column is about that interim period.

The owner who has recorded its IPR with CBP has the option of leaving the enforcement of its rights entirely to CBP or it can take a more activist approach. Some companies plagued by counterfeit imports have been loath to assume a passive role.

First, the process of recording a trademark with CBP includes a listing of foreign authorized or licensed users

(read: foreign factories). Some IPR owners take it a step further and issue letters of authorization to their customers who might be seeking to import licensed products, and provide CBP officials at the ports where imports are anticipated with a copy of a typical letter and a listing of all recipients of the letters.

Other companies with valuable brand franchises have been especially active, dispatching teams comprising corporate IP lawyers and product line executives and their outside trademark counsel to customs ports of entry. The mission is to educate the customs officials on how to distinguish a counterfeit from a real article. Sometimes only exceedingly subtle differences in the font used on a luxury watchface or the stitched thread design on a pair of jeans can give away the fake.

I can speak from experience in dealing with counterfeit goods. Other than working

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on the legal team hired by the Anti-Counterfeit Coalition that was successful in getting legislation passed in 1978 to provide for the seizure of counterfeit goods, my first involvement dates to 1983 when I was working in Brussels for a Fortune 100 company. There we got word that an enterprising European businessman had contacted the packaging supplier that the German affiliate had been using for decades to make the tin cans for its branded corn oil. The businessman had arranged for the supplier to duplicate in every single detail the cans that were used for the oil and had arranged to purchase a load of the empty cans. The empty cans would be picked up at the supplier in Swabia and then trucked to the Netherlands, where they would be filled not with corn oil but with rapeseed oil. The businessman would then ship the counterfeit oil to the Middle East. However, Interpol tracked the shipment and Dutch police arrested the businessman. The point is that had the loyal pack-

aging supplier not tipped off the IPR owner, it would have been impossible to tell the real from the counterfeit absent a lab analysis. An external examination of the packaging would have revealed nothing amiss, as the cans were authentic. Because of stories like this, some in the IPR owner community have gotten more active in policing the border.

## HQ Rulings

One way for trademark or copyright owners to get very active is to go beyond the port-level discussion with CBP officials on the need to be alert and ways to tell authentic from infringing or counterfeit articles. These IPR owners can also contact CBP Headquarters and get a CBP ruling on whether a given article presents an infringement or a counterfeit of a recorded trademark or copyright.

This body of rulings and the process for obtaining them is certainly not well known among trade and customs lawyers and, given the relative-

ly small number of rulings issued by CBP over the years, probably not well known among trademark lawyers either. But both the rulings and the procedure for obtaining them exist,<sup>7</sup> so in addition to the more standard issues such as tariff classification, customs valuation, and country of origin, the status of an imported article for IPR enforcement purposes can be ascertained. The rulings have generally been issued by the Intellectual Property Rights Branch, within CBP's Office of Regulations and Rulings.

## Requests from Port Officials, Importers, IPR Owners, and Returning Residents

The applicants for the rulings go across the board, from the IPR owners<sup>8</sup> to third parties.<sup>9</sup> In certain instances, rulings are issued in response to inquiries from port officials<sup>10</sup> and are in the nature of internal advice (IA) requests.<sup>11</sup> Ruling requests can also come from casual importers—a

traveler returning to the United States with both an expensive watch and a question about its admissibility.<sup>12</sup> A perusal of the rulings also clarifies the importance of recording trademarks with CBP. While it is true that an imported article that either counterfeits a PTO-registered trademark or is substantially indistinguishable is subject to seizure,<sup>13</sup> articles containing infringing marks are subject to seizure only if they have been recorded with CBP.<sup>14</sup> CBP takes an expansive view of what is protected under the "likelihood of confusion" test for infringing goods, and CBP extends its protection to goods not specifically listed on the trademark registration under the "related goods" doctrine.<sup>15</sup>

## CBP Application of Trademark Law

The foremost authority in the United States on trademark law is unquestionably Professor Thomas McCarthy at the University of San Francisco. I graduated from USF Law

<sup>1</sup> The intersections with such topics as human rights, environmental protections, animal welfare, and government procurement may be less apparent but no less important.

<sup>2</sup> See Neville, "Intellectual Property Rights," 18 JOIT 11 (February 2007); "Counterfeit Goods—Seizure at the Border," 20 JOIT 20 (August 2009); "Lever Rule: Gray-Market Showstopper," 21 JOIT 19 (October 2010).

<sup>3</sup> Section 337 of the Tariff Act of 1930 (19 U.S.C. section 1337). It would be a mistake to believe that section 337, which by its terms generally prohibits all "unfair methods of competition and unfair acts in the importation of articles," does not also extend its protection to trademarks or copyrights. See, e.g., CBP ruling no. H071172 (April 9, 2010) (ITC exclusion order enforcing Rubik's Cube design trademark rights), discussed further in the text below.

<sup>4</sup> 19 U.S.C. sections 1526(e) and (f).

<sup>5</sup> 19 C.F.R. sections 133.4 and 133.34 for trademarks and copyrights, respectively.

<sup>6</sup> See, e.g., Neville, "Counterfeit Goods..." *supra* note 2.

<sup>7</sup> There is no specific procedure for applying for an IPR ruling, so the general ruling application procedures will apply. 19 U.S.C. section 177.1

<sup>8</sup> See, e.g., CBP ruling no. 459012 (May 2, 1995) (trademark owner Dupont sought ruling that certain imports bearing trademarks infringed its Lycra® trademark; distinction in treatment between counterfeits (subject to immediate seizure and forfeiture) and suspected infringements (initially subject to detention only)). Unless stated otherwise, all rulings cited herein are CBP rulings.

<sup>9</sup> See, e.g., ruling nos. 474600 (November 5, 2003) (lawyer sought ruling on trademark law status of certain designs that client wanted to import); 468896 (March 9, 2000) (lawyer sought ruling that client's packaging did not violate trademark rights held by others based on a likelihood of confusion); 469268 (April 18, 2000) (importer sought

advice on IPR status of an imported soccer-style jersey).

<sup>10</sup> See, e.g., ruling nos. 451754 (November 13, 1991) (ruling issued to port official at Wilmington, NC) and 450725 (March 20, 1991) (Laredo customs official sought HQ advice about imported sunglasses).

<sup>11</sup> The provision for IAs is at 19 C.F.R. section 177.11.

<sup>12</sup> See ruling no. H071620 (November 20, 2009) (returning resident arriving with one genuine Rolex® watch is permitted entry, subject to all entry and duty requirements).

<sup>13</sup> Pursuant to 19 U.S.C. section 1526(e).

<sup>14</sup> See, e.g., ruling nos. 451754 (November 13, 1991) and 450130 (July 7, 1990). Seizure is pursuant to 19 U.S.C. section 1595a(c) for violation of 15 U.S.C. section 1124 (importation of goods bearing infringing marks or names forbidden); see ruling no. 450725 (March 20, 1991).

<sup>15</sup> Ruling no. 450130 (July 7, 1990).

<sup>16</sup> Ruling no. H005065 (April 5, 2007).

<sup>17</sup> Ruling no. H072172 (April 9, 2010); but see ruling no. H027746 (March 6, 2009) (one design is permitted entry, one design is prohibited from entry).

<sup>18</sup> 19 U.S.C. section 1625(c); 19 C.F.R. section 177.10(a).

<sup>19</sup> 19 U.S.C. section 1516; 19 C.F.R. sections 175.1 *et seq.*

<sup>20</sup> 19 U.S.C. section 1625(b).

<sup>21</sup> Ross Cosmetics Distribution Centers, Inc., 18 CIT 979 (1994) (CBP had issued ruling no. 451142 (June 27, 1991) to the importer).

<sup>22</sup> See, e.g., Connor, 24 CIT 195 (2000).

<sup>23</sup> CBB Group, Inc., 783 F. Supp. 2d 1248 (CIT, 2011) (court strongly rejected government's claim of lack of subject matter jurisdiction). See also Jazz Photo Corp., 439 F.3d 1344 (CA-F.C., 2006). But see International Maven, Inc. v. McCauley, 678 F. Supp. 300 (CIT, 1988) and H&H Wholesale Services, Inc., 437 F. Supp. 2d 1335 (CIT, 2006).

and studied with Professor McCarthy but never took his trademark law course. Still, it is impossible to touch on trademark law matters without coming into contact with his writings. Even in this narrow application of the interface between the customs and trademark laws, one will find CBP quoting from his text for authority. In one ruling request, a customs broker sought a determination from CBP on the status of imported articles made from discarded cans bearing other companies' trademarks. Professor McCarthy's learned treatise was cited on this issue of "collateral use" of the trademarked goods, in which CBP concluded that the imported goods would actually bear counterfeit marks.<sup>16</sup>

### Port Officials' Collaboration

Another ruling (no. 450180, August 24, 1990) provides insight into the collaboration between port officials and IPR owners. At the port of Laredo, CBP questioned the IPR status of athletic shoes imported from Mexico. CBP's view was that the shoes may have violated the British Knights registered trademark and sought Headquarters advice. According to the ruling:

Customs officers contacted the trademark owner's legal counsel and were informed that there was no authorized manufacturer in Mexico for its trademarked goods. Additionally, Customs was informed that the trademark owner was engaged in its own investigation of the unauthorized use of the trademark in Mexico. The trademark owner's representative provided Customs with the name of

the suspected Mexican manufacturer. The unauthorized manufacturer's name matched the name appearing on the invoice for the imported goods.

This ruling reveals the level that all IPR owners are striving for in their IPR enforcement, i.e., a "heads up" CBP official at the port who is open to a cooperative dialogue with the IPR owner and committed to pursuing the issue. Especially given CBP's more recent IPR emphasis, with IPR now being one of its principal enforcement areas, importers and IPR owners alike must be especially mindful of this dynamic with CBP officials at the port and at the IPR Branch of Headquarters.

### Applicability of ITC Exclusion Order

The rulings may also opine on whether a given imported product will violate an ITC Exclusion Order. This was true in a 2010 ruling on the importation of an article that raised a question of the Exclusion Order issued to protect Rubik's Cube design trademarks. CBP determined that the article did not fall within the scope of the Order and parenthetically noted that it did not violate any other trademark rights.<sup>17</sup>

### Ex Parte Process

The ruling process is based on an application submitted by the IPR owner or a prospective importer, and there is no opportunity for comment while it is being considered by any party whose interests are adverse to the requesting party. For instance, if a trademark owner submits a ruling request, only that person has an opportunity to engage in

any dialogue with CBP. No other parties are even aware of the pending ruling request, much less able to participate in the process. There is a requirement for publication of these and other interpretive rulings,<sup>18</sup> which is done by posting on CBP's website. However, given the narrow scope of those who know where to look, the first time that a potential importer ever learns of the ruling could be after it has been applied against his entry and his goods have been seized by CBP. Because the rulings potentially cut both ways, it is equally possible that a trademark owner may not be aware that an unpublished ruling has given free access to imported goods by determining that there is no infringement or counterfeiting.

This lack of transparency is manifestly unfair and should be changed. Because of the concern for IPRs, there is always, and in all circumstances, an inherent conflict between the IPR owner and all other parties. The regulations should be amended to allow for notice and active participation by all interested parties in the IPR ruling process. There is something of a precedent in domestic interested parties' petitions, with the notice requirement to all importers of the affected merchandise.<sup>19</sup>

The process does provide some comfort insofar as there is a statutory opportunity for a person to appeal an adverse interpretive ruling.<sup>20</sup> Presumably, this should allow an adverse party to an IPR ruling (i.e., an IPR owner or a prospective importer affected by the ruling) a chance to obtain *de novo* review from CBP Headquarters.

### Judicial Review

Just as CBP may be seen as an alternative venue to the PTO for the issuance of determinations on IPRs, judicial review of those determinations might follow a path that is alternative to the federal district courts. The determinations by CBP in these rulings are subject to review by the Court of International Trade (CIT). In a 1994 decision, the CIT decided that CBP was within its statutory authority to issue an IPR ruling.<sup>21</sup> An importer of goods that are the subject of one of these rulings might seek review by the CIT under its authority to render a declaratory judgment, if the plaintiff can demonstrate irreparable harm absent declaratory relief.<sup>22</sup> If the plaintiff is unable to meet that burden and declaratory relief is not granted, the plaintiff's alternative course would be an attempt to make an entry of the goods that were the subject of the CBP ruling. This would run the almost certain risk of seizure by CBP. The importer might then obtain review by the CIT of the "deemed exclusion."<sup>23</sup>

It is also conceivable that an importer might decide not to appeal or directly challenge a CBP ruling or seek to enjoin any CBP action to effectuate the ruling but, instead, to undercut its legitimacy by attacking the underlying IPR. Such a strategy might take the form of a cancellation action at the PTO or a challenge in federal district court. If the IPR were no longer registered at the PTO, there would be no IPR for CBP to enforce and the ruling should be revoked. Absent a court injunction, such a course would require that the prospective importer hold off on any imports of the articles pending a resolution of the issue. ●