

Recent developments in counterfeiting: Howard Hogan

By Howard Hogan

Sales of counterfeiting goods continue to plague companies in the luxury industry and among most consumer brands. According to a 2016 OECD report, worldwide trade in counterfeit goods reached 2.5 percent of global trade in 2013, worth approximately \$461 billion USD, an increase of almost double what the OECD had estimated in 2007. The study found that counterfeits now make up 5% of all imports into the European Union alone.

E-commerce is undoubtedly fueling the availability and sales of counterfeits. A separate 2016 study by researchers affiliated with the World Economic Forum took an in-depth look at how criminal organizations in Russia and China used the social media platform Instagram to sell luxury counterfeit goods. The researchers reviewed about 150,000 posts tagged with luxury brand names, and found that approximately 20% featured counterfeit products. It would take an army of trademark enforcers to shut down all 20,000 Instagram accounts identified in the study one-by-one.

These online forums—designed to maximize sales and minimize contact with the sellers—give counterfeiters access to a marketplace of millions of potential consumers. But these forums do not demand the same kind of accountability required of brick-and-mortar retailers. In traditional commerce, sellers of counterfeit goods can be traced to a physical address and may be subject to arrest by law enforcement. In the virtual world, however, counterfeiters can typically hide behind transitory Internet accounts and identities that can be abandoned and replaced, almost at a moment's notice.

The good news is that courts in different countries have indicated a receptiveness to the development of new tools to track down the parties responsible, and even recover some of the profits. In the United States, the New York-based Court of Appeals for the Second Circuit held in 2014 that if courts in New

York can establish “personal jurisdiction” over specific counterfeiters (because they sell to customers in New York and cause harm to brand owners in New York), then those courts also have the authority to freeze the counterfeiters’ assets wherever they may be held, and order banks that do business in New York to produce the records of bank accounts used in connection with counterfeiting. In 2016, a New York district court used that authority to hold the Bank of China in contempt of court for refusing to abide by the court’s disclosure orders and compelled the Bank to produce extensive records concerning the counterfeiters’ China-based accounts, or else face a \$50,000 per day penalty. Importantly, the court concluded that the Bank of China’s use of its New York correspondent accounts to transfer U.S. Dollar-denominated counterfeiting profits into bank accounts that were opened in China subjected the Bank itself to the court’s authority. My firm and I represented the plaintiffs in that case.

In Europe, courts have also continued to develop the principle that online intermediaries that facilitate the sale of counterfeits can be ordered to take measures to stop those sales and prevent future sales. In 2016, the Court of Justice of the European Union held that the same principle can be applied with equal force to operators of physical marketplaces. Even more intriguingly, in 2016, the U.K. Court of Appeal in *Cartier International AG & others –v- British Sky Broadcasting Limited and others* (2016) EWCA Civ 658, affirmed orders that required Internet Service Providers (ISPs) to block access to websites that sold counterfeit goods. The court invoked a provision of the U.K.’s Copyright, Designs and Patents Act that had been widely used to order ISPs to stop the digital transmission of files that infringe copyrights. The 2016 decision extended this principle to order ISPs to stop allowing the sales of counterfeit goods that infringe trademark rights.

And in Canada, its Supreme Court is currently weighing an appeal from an order of the British Columbia Court of Appeal that would have required the Internet search engine Google to de-index—and thus refuse to display—links to websites that sell counterfeit goods on a worldwide basis. If affirmed, the case would provide luxury brand owners with still more tools to fight back against the flood of counterfeit goods available online.

These cases appear to indicate that courts are increasingly aware of the scope of the problems caused by sales of counterfeits online. Because counterfeiters are endlessly creative in finding ways to take advantage of online platforms, though, luxury brands must be both creative and vigilant to slow or shut down the channels of counterfeit commerce.

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