

The Hoods Who Move the Goods: An Examination of the Booming International Trade in Counterfeit Luxury Goods and an Assessment of the American Efforts to Curtail Its Proliferation

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INTRODUCTION: A SURVEY OF THE COUNTERFEIT TRADEMARKED GOODS INDUSTRY IN NEW YORK CITY.....	502
I. THE UNITED STATES REFUSES TO RECOGNIZE AND REMEDY THE DANGERS OF COUNTERFEIT GOODS	506
II. ASIAN ORGANIZED CRIME ENTERPRISES DOMINATE THE AMERICAN COUNTERFEIT GOODS TRADE	509
III. FEDERAL STATUTES PROVIDE PROSECUTORS WITH POTENT WEAPONS TO COMBAT COUNTERFEITING.....	521
IV. NEW YORK'S STATUTORY TREATMENT OF CRIMINAL TRADEMARK COUNTERFEITING IS INCOMPLETE	535

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502 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* Vol. 17:501

V. UNCONVENTIONAL CIVIL ENFORCEMENT MEASURES
ARE EFFECTIVE IN THWARTING COUNTERFEITERS540

VI. CRIMINAL TRADEMARK COUNTERFEITING PROHIBITIONS
MUST BE ENFORCED MORE CONSISTENTLY547

INTRODUCTION:
A SURVEY OF THE COUNTERFEIT TRADEMARKED
GOODS INDUSTRY IN NEW YORK CITY

Canal Street bisects Lower Manhattan from east to west little more than four miles south of the lavish storefronts of Madison and Fifth Avenues that constitute the apex of high-end luxury retailing in New York City.¹ The extravagance of the gilded retail temples of Fifth and Madison Avenues mirrors the hedonistic opulence of the high-cost, high-margin wares these shops showcase and sell. The cramped, dank, and dingy retail storefronts of Canal Street, sandwiched as they are between suspect fishmongers and open-air food stalls, encourage, in marked contrast, recollections that the low-lying land atop which the present-day thoroughfare sits originally served as Manhattan's primary sewage culvert.² Yet, a cursory perusal of the stores of Canal Street would suggest to a naïve—or willfully blind—shopper that these low-rent operations are miraculously able to stock the same luxury fashion accessories as the up-market retailers situated further uptown, and are inexplicably able to sell such items at exponentially lower price points. Such an unenlightened consumer might conclude that the low prices of Canal Street's luxury goods are a product of the lower overhead costs borne by the owners of the smaller, shabbier stores. The real means through which Canal Street retailers are able to price their ersatz luxury goods so far below the levels adhered to by

¹ Google Maps, <http://maps.google.com> (last visited Oct. 5, 2006). The actual distance varies depending on the particular start and end points of the measurement.

² See EDWIN G. BURROWS & MIKE WALLACE, *GOTHAM: A HISTORY OF NEW YORK CITY TO 1898*, at 359–60 (1999). Canal Street initially existed as an eight-foot wide open sewer. See *id.* When the city covered this ditch over in 1819, it neglected to install air traps, so the area continued to stink of sewage. See *id.* at 360.

legitimate retailers, however, is an open secret for anyone who cares to look: Canal Street is the epicenter of New York City's counterfeit luxury goods trade. On this teeming thoroughfare little more than a mile in length³ one can find innumerable seemingly authentic brand name products from Sony electronics to Gucci handbags. None of this merchandise is real, but no one seems to care.

The heart of counterfeit goods retailing along Canal Street lies only four-tenths of a mile north of the offices of the Criminal Division of the United States Attorney's Office for the Southern District of New York, and only two-tenths of a mile north of the New York County District Attorney's Office at One Hogan Place.⁴ The distance between the counterfeit goods retailers of Canal Street and the offices of the government attorneys who bear the burden of prosecuting such operations is so short that a New York County Assistant District Attorney could walk up to Canal Street, purchase a counterfeit designer handbag, and return to the office in the course of a morning coffee break.⁵ Astonishingly, a government prosecutor could embark on such an excursion without violating a single state or federal law, and could thus proudly march back into her office with statutory impunity.

Whether she could make this walk with a clear conscience, however, is another matter altogether. In 2004, the value of the global trade in pirated and counterfeit goods surpassed \$600 billion.⁶ Almost seven percent of all merchandise sold worldwide is either counterfeit or pirated.⁷ American businesses

³ Google Maps, *supra* note 1.

⁴ *Id.* All commercial activity along Canal Street, both legal and illicit, counterfeit goods retailing included, is concentrated east of the Avenue of the Americas. *Id.* West of the Avenue of the Americas, Canal Street transforms to function principally as a feeder for the Holland Tunnel leading towards New Jersey. *Id.*

⁵ The Manhattan Criminal Courts Building, which houses the headquarters of the New York County District Attorney's Office, lies atop land that once contained Collect Pond, the cesspool that drained into the culvert that begat Canal Street. *See* Carol Groneman, *Collect*, in *THE ENCYCLOPEDIA OF NEW YORK CITY* 250, 250 (Kenneth T. Jackson ed., 1995).

⁶ Laurie J. Flynn, *U.S. Discloses Moves to Stop Piracy of Intellectual Property*, *N.Y. TIMES*, Sept. 22, 2005, at C7 (citing statistics from the World Customs Organization and Interpol).

⁷ *Id.* (citing projections of the World Customs Organization and Interpol).

estimate that the scourge of counterfeit and pirated products costs them \$250 billion in lost revenues every year.⁸ The value of the counterfeit goods trade in New York City alone is \$23 billion.⁹ Of particular interest to the hypothetical counterfeit-handbag-purchasing Assistant District Attorney, the City of New York, her employer, loses \$1.03 billion in uncollected tax revenues each year at the hands of the illegal counterfeit goods trade.¹⁰ While this attorney prosecutes a myriad of miscreants, including traffickers of counterfeit trademarked goods, she is contributing to the defrauding of her employer—though technically committing no crime—as she carries her trial materials to the courtroom in a counterfeit bag.

Part I of this Note addresses the daunting size and pervasive scope of the worldwide trade in counterfeit trademarked goods, while noting that United States law, at both state and federal levels, lags behind the statutory schemes of certain European nations in its efforts to stem the propagation of ersatz luxury wares. Part II examines the identity and methods of operation of the multinational organized crime groups and terrorist organizations that dominate the illegal counterfeit goods trade in the United States.

Part III chronicles American anti-counterfeiting enforcement efforts at the federal level, with a primary focus on the nature and use of the criminal provisions of the Trademark Counterfeiting Act of 1984 (“1984 Act”),¹¹ the Racketeer Influenced Corrupt Organizations Act (“RICO”),¹² and the Money Laundering Control Act of 1986 (“Money Laundering Act”)¹³ in prosecutions for trafficking in counterfeit trademarked goods. Part III also addresses the changes wrought by Congress’ recent amendment of the 1984 Act criminalizing trademarked labels unattached to other

⁸ *Id.*

⁹ Press Release, Office of N.Y. City Comptroller, Thompson: Counterfeiting Costs NYC More than \$1 Billion Annually (Nov. 22, 2004) (on file with author), *available at* http://www.comptroller.nyc.gov/press/2004_releases/pr04-11-065.shtm.

¹⁰ *Id.* This loss arises from a combination of unpaid sales, business income, and personal income taxes. *Id.*

¹¹ 18 U.S.C.A. § 2320 (West 2006).

¹² 18 U.S.C. §§ 1961–1968 (2000).

¹³ 18 U.S.C. §§ 1956–1957 (2000).

goods.¹⁴ Part IV assesses state-level prohibitions against trafficking in counterfeit goods from the standpoint of New York state law, devoting particular attention to the trademark counterfeiting,¹⁵ enterprise corruption,¹⁶ and money laundering¹⁷ provisions of the New York Penal Law.

Part V surveys the civil anti-counterfeiting enforcement options available to trademark owners, concentrating on trademark owners' ability to sue the landlords of businesses that sell counterfeit goods under the Lanham Act¹⁸ and New York Real Property Law¹⁹ through the doctrine of contributory liability.²⁰ Part V also considers why trademark owners fail to make more extensive use of their capacity to sue enterprises engaged in the trafficking and sale of counterfeit goods under the civil provisions of RICO.²¹

Part VI concludes that while legislators could amend the statutory anti-counterfeiting provisions presently in force at both the state and federal levels in certain limited respects as one component of a pervasive effort to curb the proliferation of counterfeit goods, the prohibitions against trademark counterfeiting as they currently exist are on the whole sufficient to combat and curtail the counterfeit goods trade, provided law enforcement and prosecutorial agencies employ and apply the existing statutes with diligence and consistency. Neither state nor federal law enforcement and prosecutorial agencies, however,

¹⁴ See Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, sec. 1-2, § 2320, 120 Stat. 285, 285 (2006) (codified as amended at 18 U.S.C.A. § 2320 (West 2006)).

¹⁵ N.Y. PENAL LAW §§ 165.70-165.74 (McKinney 2006).

¹⁶ Organized Crime Control Act, N.Y. PENAL LAW §§ 460.00-460.80 (McKinney 2006).

¹⁷ N.Y. PENAL LAW §§ 470.00-470.25 (McKinney 2006).

¹⁸ 15 U.S.C.A. §§ 1051-1129 (West 2006).

¹⁹ N.Y. REAL PROP. LAW § 231 (McKinney 2006).

²⁰ See generally Barbara Kolsun & Jonathan Bayer, *Indirect Infringement and Counterfeiting: Remedies Available Against Those Who Knowingly Rent to Counterfeiters*, 16 CARDOZO ARTS & ENT. L.J. 383, 413-17 (1998); Fara S. Sunderji, Note, *Protecting Online Auction Sites from the Contributory Trademark Liability Storm: A Legislative Solution to the Tiffany Inc. v. eBay Inc. Problem*, 74 FORDHAM L. REV. 909, 919-23 (2005).

²¹ 18 U.S.C. § 1964 (2000).

make effective use of the prohibitions against trademark counterfeiting presently in force. Though both federal and New York State statutes criminalize trafficking in counterfeit goods irrespective of the dollar value of the merchandise involved, law enforcement agencies evince little interest in arresting street-level vendors of counterfeit goods, and government attorneys demonstrate scant concern with prosecuting such low-level offenders unless such interdictions are manifestly capable of leading up the criminal food chain to high-volume distributors and manufacturers of counterfeit goods.²² As long as this blasé enforcement pattern persists, the counterfeit goods trade will continue unabated.

I. THE UNITED STATES REFUSES TO RECOGNIZE AND REMEDY THE DANGERS OF COUNTERFEIT GOODS

Like steerers who point addicts towards narcotics dealers lurking in the lobbies and apartments of buildings in Washington Heights, barkers for counterfeit goods retailers ply the sidewalks of Canal Street surreptitiously beckoning would-be customers into squalid storefronts to purchase wares bearing the brand names of renowned luxury goods retailers such as Gucci and Louis Vuitton. In Washington Heights, the George Washington Bridge and Interstate 95, both nearby,²³ provide convenient entry and exit conduits for drug buyers, many of whom are suburbanites eager to make a quick escape from the city once they score their drug of choice. Likewise, the eastern and western bookends of Canal Street, the Manhattan Bridge and the Holland Tunnel,²⁴ serve to expedite out-of-town visitors' excursions into Lower Manhattan to purchase counterfeit luxury merchandise.

No quick escape is necessary, however, after purchasing counterfeit luxury goods. If police officers in Washington Heights observed a drug buyer purchase narcotics from a known dealer,

²² See Alison Neumer, *Faux Real: For Some Buying Fake Designer Duds Is a No-Brainer, but Does Going Cheap End Up Costing You the Most?*, CHI. TRIB., Dec. 15, 2004, at 48 (citing CEO of a corporate investigation firm).

²³ See Google Maps, *supra* note 1.

²⁴ See *id.*

enter a car with out-of-state license plates, and head for the George Washington Bridge, they would pull the vehicle over, search for the contraband, as the United States Supreme Court permits them to do,²⁵ and arrest the occupants. Law enforcement agencies indeed arrest and prosecute, at least to some extent, importers and retailers of counterfeit goods.²⁶ If, however, police officers in Lower Manhattan observe someone purchase counterfeit luxury goods, enter a car with out-of-state license plates, and drive off towards the Holland tunnel, the officers would not use the purchase of the merchandise as a basis to stop the vehicle, would not search the car for the counterfeit items, and would not arrest the occupants for purchasing the goods. Even if law enforcement officers wanted to arrest such retail-level buyers of counterfeit goods, they could not legally effect such an arrest.²⁷

Italy and France, likely spurred on by the aggressive lobbying efforts of European luxury goods producers, criminalized the purchase of counterfeit merchandise in the summer of 2005.²⁸ In France, defendants convicted of buying counterfeit goods, even at the retail-level, now face up to three years in prison.²⁹ In the United States, however, no criminal liability exists under either state or federal statutory schemes for purchasing counterfeit products.³⁰ Under New York State law, a defendant who sells counterfeit trademarked goods faces a maximum of one year in jail upon conviction, provided the retail value of the wares bearing the

²⁵ See *United States v. Ross*, 456 U.S. 798, 826 (1982) (holding that police officers may conduct a warrantless search of an automobile if they have probable cause to believe there is contraband concealed within the vehicle). See also *California v. Carney*, 471 U.S. 386, 394-95 (1985) (holding that a reduced expectation of privacy in motor vehicles results from the extensive government regulation of vehicles capable of traveling on highways).

²⁶ See, e.g., *United States v. Cho*, 136 F.3d 982, 983 (5th Cir. 1998) (wherein United States Customs agents conducted surveillance on defendant's counterfeit handbag retailing operation and defendant consequently pled guilty to two counts of trafficking in counterfeit goods in violation of 18 U.S.C. § 2320(a) (2000)).

²⁷ See generally, Neumer, *supra* note 22.

²⁸ See Alessandra Galloni, *Bagging Fakers and Sellers—Makers of Luxury Goods Try New Legal Tactics Against Those Who Aid Counterfeiters*, WALL ST. J., Jan. 31, 2006, at B1.

²⁹ See *id.*

³⁰ See *id.*

counterfeit trademark is one thousand dollars or less.³¹ Prosecutors cannot even charge a buyer of counterfeit goods with a crime, regardless of the retail value of the merchandise he or she has purchased.³²

Yet the international market for counterfeit goods is nearly twice the size of the worldwide market for illicit drugs. The dollar value of the American counterfeit goods market exceeds the dollar value of the American market for illegal narcotics by roughly \$100 billion, and the disparity continues to widen with each passing year. The value of the global market in illicit drugs, based on retail sale prices and with government seizures and other losses to suppliers taken into account, totaled \$322 billion in 2003, while the value of the worldwide counterfeit goods trade surpassed \$600 billion.³³ The North American segment of the worldwide illegal narcotics market, valued at \$142 billion and dominated by the appetites of the United States, comprised forty-four percent of the global aggregate marketplace, while American businesses lose an estimated \$250 billion each year to the illicit counterfeit goods trade.³⁴ Between 2001 and 2004, the incidence of seizures of counterfeit goods at America's borders jumped by eighty-one percent.³⁵ Even if heightened governmental interdiction precipitated a portion of this increase, the rapid increase in seizure rates suggests that the trade in counterfeit goods is a premiere growth industry for criminal enterprises operating within the United States. Indeed, government officials concede that, as in the narcotics trade, seized items constitute only a fraction of the

³¹ See N.Y. PENAL LAW §§ 70.15, 165.71–165.72 (McKinney 2006). The term “retail value” means the actual retail value of the counterfeit goods, not the higher retail value the goods would have if they were legitimate. See N.Y. PENAL LAW § 165.70 cmt. (McKinney 2006) (William C. Donnino, Practice Commentary). For further discussion of New York state statutory provisions prohibiting trademark counterfeiting, see *infra* Part IV.

³² See Neumer, *supra* note 22.

³³ 1 U.N. OFFICE ON DRUGS AND CRIME, 2005 WORLD DRUG REPORT at 127, U.N. Sales No. E.05.XI.10 (2005); Flynn, *supra* note 6.

³⁴ U.N. OFFICE ON DRUGS AND CRIME, *supra* note 33, at 128; Flynn, *supra* note 6.

³⁵ Thomas Crampton, *U.S. Coordinates Efforts to Stop Counterfeit Goods*, N.Y. TIMES, Oct. 5, 2004, at C12 (citing figures proffered by then-Under Secretary of Homeland Security Asa Hutchison).

market for counterfeit goods.³⁶ The global trade in illicit counterfeit goods, then, more lucrative for participants and more costly for society than the criminal narcotics industry, has burgeoned into the largest illicit all-cash business in the world.

As the dominant illicit industry worldwide, the counterfeit goods trade has predictably attracted the interest of international organized crime groups.³⁷ Drawn by the allure of the high rates of return and extensive profits reaped from trafficking in counterfeit goods, and further encouraged by lackadaisical governmental enforcement of anti-counterfeiting measures, organized crime factions have come to dominate the importation, trafficking and distribution of high-volume counterfeit trademarked goods in the United States.³⁸ For organized criminal enterprises, the counterfeit goods trade is an ideal illicit business because the considerable financial rewards that abound in the industry substantially outweigh the commensurately minor risk of piquing the ire of governmental enforcement agencies.³⁹

II. ASIAN ORGANIZED CRIME ENTERPRISES DOMINATE THE AMERICAN COUNTERFEIT GOODS TRADE

While organized crime groups import and distribute much of the illicit luxury merchandise sold in the United States, counterfeiters in Asia manufacture the vast majority of these goods.⁴⁰ China is the primary source for counterfeit luxury goods

³⁶ See Tina Cassidy, *Bagging the Knockoffs: There's Nothing Like the Real Thing*, BOSTON GLOBE, Dec. 26, 2002, at D1 (noting a statement of Nancy Kratzer, Assistant Director for Fraud Investigations, U.S. Customs, and Director of the National Intellectual Property Rights Coordination Center).

³⁷ See, e.g., S. REP. NO. 104-177, at 3 (1995) (“[C]ounterfeiting has grown into a multibillion dollar, highly sophisticated illegal business, increasingly involving organized crime syndicates.”).

³⁸ See, e.g., David Johnston, *Threats and Responses: The Money Trail; Fake Goods Support Terrorism, Interpol Official Is to Testify*, N.Y. TIMES, July 16, 2003, at A11 (noting Secretary General of Interpol Ronald K. Noble’s testimony that the connection between organized crime groups and counterfeit goods is strong and notorious).

³⁹ See, e.g., S. REP. NO. 104-177, at 4.

⁴⁰ See Cassidy, *supra* note 36.

sold throughout the world.⁴¹ Within China, production of counterfeit luxury merchandise is concentrated in southern provinces such as Guangdong.⁴² No doubt owing to China's dominance in the manufacturing of counterfeit wares, Chinese organized crime groups, known colloquially as triads or tongs, are responsible for the importation of a considerable portion of the counterfeit trademarked goods that enter the United States, and for the distribution of such merchandise once it reaches American shores.⁴³ Indeed, Canal Street functions as the hub of triad-operated counterfeit goods distribution system with tendrils extending throughout the northeastern United States.⁴⁴ The government's seizure of \$4 million worth of counterfeit trademarked luxury goods from four warehouses in Manhattan and Queens following the indictment of thirteen alleged members of Chinese gangs on a bevy of federal charges including counterfeit goods trafficking—and, for three of the defendants, RICO violations—is illustrative of the prominent role Chinese organized crime groups play in the counterfeit goods trade.⁴⁵ The pervasive influence of Chinese criminal enterprises in the illicit counterfeit goods industry, however, does not function as a barrier to other structured criminal groups entering the trade.

Organized crime collectives whose members are of other Asian ethnicities are also extensively involved in the illegal counterfeit goods industry.⁴⁶ Every major Asian nationality appears to some extent on the organized crime landscape of the United States.⁴⁷

⁴¹ See Andrew Yeh, *The Complex Trade in Luxurious Fakes*, FIN. TIMES ASIA (London), Apr. 19, 2006, at 10.

⁴² See *id.*

⁴³ See Cassidy, *supra* note 36. See generally Alessandra Galloni, *Faked Out: As Luxury Goes Global, Knock-Off Merchants Follow*, WALL ST. J., Jan. 31, 2006, at A1.

⁴⁴ See Debra D. Peterson, *Criminal Counterfeiting and Component Parts: Closing the Perceived "Label Loophole,"* 30 AIPLA Q.J. 457, 472 n.73 (2002) (citing a position of the International Anti-Counterfeiting Coalition).

⁴⁵ See Julia Preston, *U.S. Charges 51 with Chinatown Smuggling*, N.Y. TIMES, Nov. 13, 2004, at B2; Press Release, U.S. Att'y for S. Dist. N.Y., U.S. Indicts 51 Chinese Organized Crime Figures in Massive Coordinated Sweep (Nov. 12, 2004) (on file with author), available at <http://www.usdoj.gov/usao/nys/Press%20Releases/NOVEMBER04/Chinese&20OC&20Indicment.pdf>.

⁴⁶ See HERBERT C. COVEY ET AL., JUVENILE GANGS 88 (2d ed. 1997).

⁴⁷ *Id.*

Although not all Asian gangs are involved in the trafficking of counterfeit trademarked merchandise,⁴⁸ the extensive participation of Korean organized crime groups in the illicit counterfeit goods trade is commensurate with the involution of Chinese criminal enterprises in the industry.⁴⁹ In September 1995, federal law enforcement authorities, at the culmination of a two-and-a-half-year investigation christened Operation Pipeline,⁵⁰ raided warehouses in New York City and Los Angeles that served as the east and west coast distribution centers of a Korean organized crime syndicate deeply entrenched in the overseas manufacture and international trafficking of counterfeit trademarked goods.⁵¹ Agents seized \$27 million worth of counterfeit trademarked merchandise bearing brand names such as Polo and Chanel as prosecutors unsealed indictments charging forty-three members and associates of the counterfeiting ring, all Korean, with trafficking in counterfeit trademarked goods.⁵²

The substantial dollar value of the illicit goods recovered through the interdiction, and the sheer scope of the criminal counterfeiting collective unearthed, suffice in and of themselves to memorialize Operation Pipeline as a pivotal event in the government's struggle to combat and curtail the trade in illegal

⁴⁸ Members of the yakuza, the Japanese organized criminal syndicates, for example, make gambling, pornography, prostitution and drug distribution the focus of their unlawful activities, and shy away from trafficking in counterfeit trademarked goods. See Curtis J. Milhaupt & Mark D. West, *The Dark Side of Private Ordering: An Institutional and Empirical Analysis of Organized Crime*, 67 U. CHI. L. REV. 41, 66 (2000). But cf. *Imitating Property Is Theft*, THE ECONOMIST, May 15, 2003, at 54 (noting that until Japan underwent industrialization, it was a breeding ground for counterfeit goods in the 1960s; suggesting that there is a direct correlation between industrialization and curtailing the manufacture of counterfeit merchandise).

⁴⁹ See Boonghee Yoo & Seung-Hee Lee, *The Buyers of Counterfeit Products in South Korea*, 3 J. INT'L BUS. & L. 95, 97 (2004) (noting that according to the South Korean Customs Service, U.S. Customs agents interdict more counterfeit goods from South Korea than from any other country save China).

⁵⁰ There is no connection between this investigation and the Drug Enforcement Administration (DEA) program of the same name implicated in the racial profiling of minorities by law enforcement officers. See Drug Enforcement Administration, Operations Pipeline and Convoy, <http://www.dea.gov/programs/pipecon.htm> (last visited Oct. 10, 2006) (describing the DEA operation).

⁵¹ George James, *Agents Raid Production Line in Queens for Fake Labels*, N.Y. TIMES, Sept. 28, 1995, at B3.

⁵² *Id.*

counterfeit goods.⁵³ Three distinct facets of the investigation, however, render the events surrounding Operation Pipeline worthy of further consideration. First, it is of decisive import to note that without the insistent impetus of Chanel, it is exceedingly unlikely that federal prosecutors and law enforcement agencies would have embarked upon Operation Pipeline.⁵⁴ The government initiated Operation Pipeline only after Chanel approached customs officials in Miami with detailed information about an ongoing counterfeiting operation producing and distributing counterfeit Chanel apparel and accessories.⁵⁵ Once in possession of this information, Government authorities were no doubt emboldened in their pursuit of the counterfeiting syndicate by the approximately \$1 million pecuniary contribution Chanel pledged to the investigation.⁵⁶ Chanel's decision to urge the government to take action against the counterfeiting collective, coupled with the company's provision of financial assistance for the government's investigation, is of immense consequence in that it represents one of the earliest documented instances of a private-sector company spearheading a criminal investigation into the counterfeiting of its trademarked products.⁵⁷

Second, the nature and characteristics of the items law enforcement agents recovered during their raids of the warehouses warrant careful attention. While Asian manufacturers dispatched some of the merchandise seized by federal agents overseas with the labels and patches bearing the counterfeit trademarks already affixed, members of the counterfeiting syndicate also attached labels and patches bearing counterfeit trademarks to previously non-branded items once the wares reached the United States.⁵⁸ In a factory in Flushing, one of the three locations law enforcement

⁵³ See generally *id.* (noting the dollar amount seized, the number of people arrested, and that the seizure represented the U.S. government's first successful attempt to track the flow of counterfeit goods from manufacturers, to distributors, and finally to retailers).

⁵⁴ See *id.*

⁵⁵ See *id.*

⁵⁶ See PAUL R. PARADISE, TRADEMARK COUNTERFEITING, PRODUCT PIRACY AND THE BILLION DOLLAR THREAT TO THE U.S. ECONOMY 256 (1999).

⁵⁷ Lauren D. Amendolara, Note, *Knocking Out Knock-Offs: Effectuating the Criminalization of Trafficking in Counterfeit Goods*, 15 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 789, 823 (2005).

⁵⁸ James, *supra* note 51.

officers raided in Queens during Operation Pipeline, agents discovered computers loaded with elaborate graphics software capable of reproducing intricately detailed trademarked brand logos linked to two automated looms driving twenty-one embroidery machines apiece.⁵⁹ In Los Angeles, federal agents unearthed the low-tech contingent of the counterfeiting collective when they came upon seventy-seven illegal immigrants in a sweatshop seated at sewing machines affixing counterfeit “Guess?” labels to jeans.⁶⁰

While the means by which counterfeiters affix labels bearing counterfeit trademarks to previously non-branded items is immaterial, the locale in which counterfeiters attach these labels is of considerable significance.⁶¹ Counterfeiters frequently import merchandise into the United States from Asia unlabeled and without branding, so that in the unlikely event that Customs and Border Protection (“CBP”) or Immigration and Customs Enforcement (“ICE”) agents seize the goods at the border, the counterfeiters can escape criminal culpability by arguing that they cannot be guilty of trafficking in counterfeit trademarked goods since the merchandise they are bringing into the country bears no trademarks.⁶² When a counterfeiter has computerized high-tech embroidery machines or an army of illegal immigrants and boxes of labels bearing counterfeit trademarks at his disposal, however, the added time and effort expended in affixing the counterfeit label of a trademarked brand to goods inside the United States scarcely qualifies as an inconvenience.⁶³

Waiting until goods make it past customs before attaching labels displaying counterfeit trademarks is only one of the multitude of tactics that counterfeiters employ to contravene the

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ See Tracie Rozhon, *Handbag Maker Takes Aim at Knockoffs*, N.Y. TIMES, Oct. 29, 2002, at C4.

⁶² See *id.*

⁶³ For a discussion of the implications of Congress’ recent amendment of the Trademark Counterfeiting Act of 1984, which now proscribes not only trafficking in goods to which labels and patches bearing counterfeit trademarks are affixed, but also trafficking in the labels and patches bearing the trademarks themselves, see *infra* Part III.

law.⁶⁴ Another novel method of evading criminal sanctions favored by counterfeiters of designer handbags is roughly analogous to a false-bottomed suitcase: the manufacturer of a counterfeit handbag places a false layer of material over the bag to disguise its illicit origins on its journey from Asia to the United States, and the distributor of the bag simply removes this camouflage in preparation for sale.⁶⁵ In one almost ludicrous instance, New Jersey law enforcement officials, with the assistance of drug-sniffing canines, discovered that an organized crime group had stitched heroin into the linings of counterfeit Louis Vuitton handbags, presumably in a fruitless attempt to secret both illegal products into the United States in one fell swoop.⁶⁶ This discovery lends considerable credence to the contention that organized crime collectives involved in the counterfeit goods trade are effectively criminal conglomerates with diversified interests spread throughout a number of unlawful activities.⁶⁷

Operation Pipeline lastly marks the emergence of governmental recognition of the presence of a new type of diversified criminal enterprise in the United States: Korean organized crime syndicates.⁶⁸ Korean organized crime groups trace their origins to the Korea of the 1940s, where they began as incipient political factions aiming to promote the Korean National Independence movement, which later became corrupt.⁶⁹ Beginning in 1950, the Korean government recognized the increasing prominence of indigenous organized crime collectives, known in Korea as "PAs," and moved to classify such organizations into one of two categories: political or

⁶⁴ See Cassidy, *supra* note 36.

⁶⁵ See *id.* (citing Nancy Kratzer).

⁶⁶ See S. REP. NO. 104-177, at 5 (1995).

⁶⁷ See generally S. REP. NO. 104-177, at 3 ("[C]ounterfeiting has grown into a multibillion dollar, highly sophisticated illegal business, increasingly involving organized crime syndicates.").

⁶⁸ See James, *supra* note 51 (noting the acknowledgment of Robert E. Van Etten, Special Agent in Charge of Customs in New York, that Korean organized crime is an emerging problem in the United States).

⁶⁹ DANIEL E. LUNGREN, CALIFORNIA DEPARTMENT OF JUSTICE, ORGANIZED CRIME IN CALIFORNIA: ANNUAL REPORT TO THE CALIFORNIA LEGISLATURE 20 (1996).

entertainment.⁷⁰ While in the past South Korean politicians employed the political PAs to infiltrate the government and rival political parties in an effort to undermine the balance of power and effect regime change, the use of political PAs to fulfill such Machiavellian aspirations has declined precipitously in recent years as the South Korean political landscape stabilized and the country's economy blossomed.⁷¹ Today, although the entertainment PAs that control bars, nightclubs, and casinos in Korea are more prominent, political and entertainment PAs are still known, on occasion, to work together in pursuit of a shared goal.⁷²

In South Korea, PAs adhere to a rigid pyramidal organizational hierarchy analogous to the structure of a La Cosa Nostra ("LCN") crime family.⁷³ A boss, a second-in-command, or underboss, and an advisor acting as counsel, similar to a *consigliere* in LCN, sit at the top of the pyramid.⁷⁴ Below them is a staff, comparable to LCN *capos*, which in turn precedes activity leaders, akin to LCN soldiers, and activity members, the counterparts of LCN associates.⁷⁵ As the South Korean government initiated a crackdown on PAs in the 1980s and early 1990s, many PA leaders fled to other countries, including the United States, where they settled in communities with Korean enclaves such as Los Angeles and New York City.⁷⁶ Once in the United States, former PA leaders founded and fostered organized criminal syndicates lacking the rigid pyramidal hierarchy of the Korean PAs.⁷⁷ The Korean Power criminal collective is emblematic of the new breed of

⁷⁰ BILL LOCKYER, CALIFORNIA DEPARTMENT OF JUSTICE, ORGANIZED CRIME IN CALIFORNIA: ANNUAL REPORT TO THE CALIFORNIA LEGISLATURE 18 (2004).

⁷¹ *Id.*

⁷² *Id.*

⁷³ James O. Finckenauer, INTERNATIONAL CENTER NATIONAL INSTITUTE OF JUSTICE, LA COSA NOSTRA IN THE UNITED STATES, <http://www.ojp.usdoj.gov/nij/international/lcn.html> (last visited Oct. 27, 2004).

⁷⁴ LUNGREN, *supra* note 69, at 20.

⁷⁵ *Id.*

⁷⁶ See LOCKYER, *supra* note 70, at 18; LUNGREN, *supra* note 69, at 20; Alan Feur, *5 Men Said to Be in Korean Mob Are Charged in Waiter's Assault*, N.Y. TIMES, May 24, 2001, at B8.

⁷⁷ LUNGREN, *supra* note 69, at 20.

Korean organized crime group that emerged in the United States.⁷⁸ In contrast to both LCN and the traditional Korean PAs, Korean Power does not adhere to a pyramidal boss-captain-soldier organizational structure.⁷⁹ Instead, the syndicate bifurcates its constituency into Big Brothers, who plan and orchestrate the group's criminal conduct, and Little Brothers, who actually perpetrate the organization's criminal undertakings.⁸⁰

The decision of contemporary United States-based Korean organized crime factions to adopt an amorphous administrative framework in place of the rigid pyramidal organizational structure typical of classic organized crime operations may initially appear counterproductive. The wisdom of this choice, however, manifests itself upon closer inspection: by implementing a more malleable managerial framework, Korean organized crime factions avert the attentions of law enforcement agencies, thereby depriving such agencies of the intelligence they need in order to infiltrate these groups while allowing the criminal enterprises to continue unabated in their unlawful activities. Because of the nebulous organizational framework embraced by the Korean organized crime syndicates, for example, the California Attorney General is able to proffer only a vague allusion that “[a]lthough structured, the various Korean organized crime groups in the United States do not have a single leader and vary in size from 20 to more than 100 members.”⁸¹ While this empty declaration betrays the Attorney General's lack of insight regarding the demographics of Korean organized crime collectives, his subsequent statement that “[c]rimes committed by the Korean organized crime group include prostitution, alien smuggling, gambling, business fraud, robbery . . . carjacking, and *the counterfeiting of designer clothes*,”⁸² implies that although he knows Korean groups are

⁷⁸ The Korean Killers, also known simply as KK, are another example of the new type of Korean criminal organization that has arisen in the United States. See Michael D. Shear, *Officials Seek Increase in Crime-Fighting Funds; Youth Gangs Cited as a Growing Problem*, WASH. POST, Sept. 7, 1995, at V01 (noting that the Korean Killers have a nationwide presence).

⁷⁹ Feur, *supra* note 76.

⁸⁰ *Id.*

⁸¹ LUNGREN, *supra* note 69, at 21.

⁸² *Id.* (emphasis added).

committing certain crimes, he is at a loss regarding which factions are perpetrating particular acts. The syndicates could not ask for anything more.

Like Korean criminal collectives, Vietnamese gangs often seek to steer clear of gaining any sort of notoriety amongst the general public, and may even refuse to adopt gang names in an effort to avoid raising the suspicions of law enforcement authorities.⁸³ Avoidance of the limelight was apparently not, however, a priority for the Born to Kill (“BTK”) gang, a Vietnamese criminal syndicate also known as the Canal Boys that held sway over much of Lower Manhattan’s Chinatown in the late 1980s and early 1990s.⁸⁴ David Thai, the former ringleader of the BTK gang presently serving three consecutive life sentences in federal prison, claims that the gang reaped millions of dollars in profits from selling counterfeit Rolex and Cartier watches.⁸⁵ The BTK gang promptly put the proceeds from these counterfeit timepiece sales to use bankrolling a cornucopia of criminal activities including robbery, extortion, and murder, perpetrated in locales as distant from Chinatown as Doraville, Georgia.⁸⁶

Counterfeiters can reap substantial sums of money with commensurately little risk through the trafficking, distribution, and sale of counterfeit goods; and can divert profits to other criminal activities. Thus, the counterfeit goods industry is attractive not only to conventional organized crime groups, but also to terrorist organizations and rogue nations.⁸⁷ Indeed, the highest-ranking official at Interpol contends that both Hezbollah and Al Qaeda

⁸³ James Diego Vigil & Steve Chong Yun, *Vietnamese Youth Gangs in Southern California*, in *GANGS IN AMERICA*, 146, 159 (C. Ronald Huff ed., 1990).

⁸⁴ See generally *United States v. Thai*, 29 F.3d 785, 794–800 (2d Cir. 1994) (describing the various criminal activities of BTK and its members through 1980s and 1990s).

⁸⁵ See S. REP. NO. 104-77, at 4–5 (1995).

⁸⁶ See *Thai*, 29 F.3d at 794–800; S. REP. NO. 104-77, at 6.

⁸⁷ See *Counterfeiting and Theft of Tangible Intellectual Property: Challenges and Solutions: Hearing Before the S. Comm. on the Judiciary*, 108th Cong. 1 (2004) (statement of Sen. Patrick Leahy, Ranking Member, S. Comm. on the Judiciary), available at http://judiciary.senate.gov/member_statement.cfm?id=1119&wit_id=103 (asserting that terrorist groups launder money from trafficking in counterfeit goods to fund criminal activities); Peter Navarro, Op-Ed., *Only China, Not U.S., Can Rein in N. Korea*, CHI. TRIB., Oct. 12, 2006, at C29 (stating that North Korea is immune from UN sanctions because of trafficking in counterfeit goods).

have turned to trafficking in counterfeit goods to generate revenue.⁸⁸ Organized crime syndicates inherently adopt self-protective measures to ward off government seizure of their goods and arrest of their personnel as a component of their overarching goal of maximizing their illicit profits by remaining in the counterfeit goods trade as long as possible.⁸⁹ Conversely, terrorist cells immersed in the counterfeit merchandise industry presumably intend to remain in the trade only for a limited time, until they sell the finite quantity of counterfeit goods necessary to meet their fundraising threshold. A terrorist organization performing a cost-benefit analysis prior to deciding whether to enter the counterfeit goods trade, then, would arrive at a risk-reward dichotomy even more disproportionate than those reached by organized crime groups, for terrorist organizations, concerned as they are only with short-term gains, can wholly disregard any long-term risks.

Since the ample pecuniary rewards ready for the taking in the counterfeit goods industry radically outweigh the trivial odds of arrest, prosecution, and seizure of the illicit merchandise, let alone the infinitesimal probability that the government will uncover the terrorists' scheme, it is unsurprising that terrorist organizations have already made full and fruitful use of the worldwide trade in counterfeit goods to finance a portion of at least one attack against the United States.⁹⁰ Terrorists funded their 1993 attack on the World Trade Center at least in part with profits derived from a counterfeit t-shirt vending operation.⁹¹ Some individuals, typically advocates for vigorous enforcement of trademark owners' rights such as Roslyn A. Mazer, an Associate Deputy Attorney General in the Clinton Administration,⁹² assert that the terrorist attacks of September 11, 2001 were also funded, at least in part, by sales of

⁸⁸ Johnston, *supra* note 38 (noting Secretary General of Interpol Ronald K. Noble's testimony on the involvement of terrorist organizations in the counterfeit goods trade).

⁸⁹ For examples of such self-protective measures, see *supra* notes 59–62 and accompanying text.

⁹⁰ See Roslyn A. Mazer, *From T-Shirts to Terrorism: That Fake Nike Swoosh May Be Helping to Fund Bin Laden's Network*, WASH. POST, Sept. 30, 2001, at B2; Betsy Streisand, *Jingle All the Way?*, U.S. NEWS & WORLD REP., Dec. 16, 2002, at 36.

⁹¹ Mazer, *supra* note 90; Streisand, *supra* note 90.

⁹² Julian E. Barnes, *Fake Goods are Flowing Under the Radar*, N.Y. TIMES, Oct. 14, 2001, § 3, at 34.

counterfeit computer software in Ciudad del Este, Paraguay, a South American hotbed of counterfeiting and piracy activity.⁹³ While Ms. Mazer's assertion regarding the funding of the September 11 attacks lacks definitive substantiation, and her remarks have drawn considerable rebuke from critics,⁹⁴ these shortcomings do not displace the fact that trafficking in counterfeit consumer goods is fast becoming the favored method of fundraising for a number of terrorist organizations, and this trend shows no signs of abating.⁹⁵

The opportunities for pecuniary gain in the counterfeit goods trade are so great that even the rogue regime in North Korea, confronted with the prospect of diminishing revenue streams as sales from its once lucrative arm business begin to dry up, has entered the fray. Pyongyang now boasts a booming trade in counterfeit cigarettes, pharmaceuticals and currency.⁹⁶ American officials estimate that North Korea now earns \$500 million annually from trafficking in counterfeit merchandise.⁹⁷ North Korea's counterfeiting activities, however, are wholly distinct from those of the Korean organized crime syndicates operating within the United States, which maintain ties with South Korea as part of their supply chains.⁹⁸ North Korea functions on an entirely different plane. Apparently disinterested in dabbling in counterfeit luxury goods, North Korea's focus on counterfeiting cigarettes, pharmaceuticals, and good old-fashioned cash meshes with its hardscrabble, iconoclastic image.⁹⁹ North Korea is the first

⁹³ Mazer, *supra* note 90.

⁹⁴ See Naomi Klein, *Comment & Analysis: McWorld & Jihad*, THE GUARDIAN (London), Oct. 5, 2001 (suggesting that Ms. Mazer's assertions stem from disingenuous political opportunism).

⁹⁵ See Johnston, *supra* note 38 (noting Secretary General of Interpol Ronald K. Noble's testimony on the involvement of terrorist organizations in the counterfeit goods trade).

⁹⁶ See Jay Solomon & Gordon Fairclough, *North Korea's Counterfeit Goods Targeted—U.S. Seeks to Curb Illicit Business in Cigarettes, Drugs, Currency to Augment Diplomacy*, WALL. ST. J., June 1, 2005, at A4.

⁹⁷ *Id.*

⁹⁸ See generally LOCKYER, *supra* note 70, at 18 (discussing South Korean Organized Crime).

⁹⁹ See *id.*

governmental regime since Nazi Germany that has attempted to make money by counterfeiting American currency.¹⁰⁰

Since North Korea is a sovereign national entity, albeit a ruthless dictatorship, one might be disinclined to brand the entire country as a criminal enterprise. American officials, however, appear to have no such qualms.¹⁰¹ The United States Ambassador to South Korea has repeatedly referred to the North as a “criminal regime,”¹⁰² while an expert on negotiation and Korean policy testified before a Senate subcommittee that the North Korean Government “is not unlike an organized crime family, but . . . characterized by a higher degree of ruthlessness carried out on a scale that dwarfs the mafia’s reach,” and that “the North Korean ‘state’ is actually a group of thugs.”¹⁰³ North Korea, then, is in the eyes of the United States government, an organized crime syndicate expanded to a hyperbolic extreme. The government, however, could turn much of its vitriolic concern about North Korea to significantly better use elsewhere. The United States government is simply not capable of shuttering North Korea’s counterfeiting industries, and since the government, over which Kim Jong-Il holds unbridled power, controls all of the nation’s industries, any effort to prosecute North Korean counterfeiting out of existence would prove unworkable.

If the government redirected even a small fraction of the attention it expends on North Korea to eradicating the counterfeit goods trade within the United States, it would begin to see perceptible reductions in counterfeit goods trafficking activity almost immediately. In contrast to the North Korean government, the Asian organized crime syndicates that dominate the importation and wholesale distribution of counterfeit goods in America are not immune to prosecution. The statutory provisions proscribing trafficking in counterfeit goods presently in force at

¹⁰⁰ See James Brooke, *Talks Stalled, U.S. Envoy Matches Insults of North Korea*, N.Y. TIMES, Dec. 15, 2005, at A10.

¹⁰¹ See *id.*

¹⁰² *Id.* (quoting Ambassador Alexander Vershbow).

¹⁰³ *How North Korea Funds Its Regime: Hearing Before the Subcomm. on Fed. Fin. Mgmt, Govt. Info., & Int’l Sec. of the S. Comm. on Homeland Sec. & Gov’t Aff.*, 109th Cong. 1–2 (2006) (statement of Chuck Downs, Author, OVER THE LINE: NORTH KOREA’S NEGOTIATING STRATEGY).

both the state and federal levels, although not flawless, are sufficient to effectuate a sea change in the counterfeit goods trade in the United States when applied diligently, expeditiously and evenhandedly. To date, however, prosecutors and law enforcement agencies have lacked the resolve to maximize the effectiveness of these laws by applying them consistently and creatively.

III. FEDERAL STATUTES PROVIDE PROSECUTORS WITH POTENT WEAPONS TO COMBAT COUNTERFEITING

The United States Constitution expressly provides for the protection of patents and copyrights.¹⁰⁴ Congress did not enact any comprehensive legislation pertaining to trademarks, however, until it passed the Trademark Act of 1870.¹⁰⁵ While this statute afforded lawful owners of trademarks the ability to seek injunctive relief and money damages from violators,¹⁰⁶ Congress did not criminalize trademark counterfeiting until it passed the Penal Act of 1876,¹⁰⁷ which threatened violators with fines and a two-year maximum prison sentence upon conviction.¹⁰⁸ The Supreme Court dashed these initial congressional efforts to protect trademarks and thwart counterfeiting when it declared in *The Trade-Mark Cases* that since federal control of trademarks was an “exercise of a power not confided to Congress,” all federal statutes regulating trademarks were unconstitutional.¹⁰⁹ Congress responded cautiously with the Trademark Act of 1881,¹¹⁰ which, because it only policed the use of trademarks in commerce with foreign nations or Indian tribes, was sure to pass muster under the

¹⁰⁴ U.S. CONST. art. I, § 8, cl. 8.

¹⁰⁵ Act of July 8, 1870, ch. 230, §§ 77–84, 16 Stat. 198, 210–12, *invalidated by* The Trade-Mark Cases, 100 U.S. 82 (1879). *See* Brian J. Kearney, *The Trademark Counterfeiting Act of 1984: A Sensible Response to the Ills of Commercial Counterfeiting*, 14 FORDHAM URB. L.J. 115, 125 (1985–1986).

¹⁰⁶ *See* Act of July 8, 1870 § 79.

¹⁰⁷ Act of Aug. 14, 1876, ch. 274, § 1, 19 Stat. 141, *invalidated by* *The Trade-Mark Cases*, 100 U.S. 82.

¹⁰⁸ *See id.*

¹⁰⁹ *See The Trade-Mark Cases*, 100 U.S. at 97–99.

¹¹⁰ Act of Mar. 3, 1881, ch. 138, 21 Stat. 502.

Commerce Clause.¹¹¹ This legislation was followed by the Trademark Act of 1905,¹¹² which, having been amended sixteen times by the 1930s,¹¹³ came to resemble “a crazy quilt of modifications.”¹¹⁴ Congress replaced this hodgepodge with a cohesive scheme for the federal regulation and protection of trademarks when it passed the Lanham Act, which remains the cornerstone of federal trademark law, in 1946.¹¹⁵

The Lanham Act supplies lawful trademark owners with an arsenal of legal weapons which they may employ against counterfeiters including forfeiture of profits to the rightful trademark owner; seizure and destruction of all counterfeit merchandise, as well as the means and machinery used to produce such goods; court costs and attorneys’ fees; and compensatory treble damages to remedy past trademark counterfeiting.¹¹⁶ The Lanham Act does not, however, criminalize trafficking in counterfeit trademarked goods.¹¹⁷ In fact, between the Supreme Court’s invalidation of all federal statutes regulating trademarks in its 1879 ruling in *The Trade-mark Cases*¹¹⁸ and Congress’ enactment of criminal penalties for trafficking in phonograph records bearing forged or counterfeit labels in 1962,¹¹⁹ no criminal prohibitions on trafficking in counterfeit trademarked goods existed at the federal level. By 1984, however, Congress recognized that the burgeoning trade in counterfeit goods in America was largely attributable to the fact that there were “virtually no criminal penalties for the sale of goods and services through the use of false trademarks,”¹²⁰ and counterfeiters viewed “potential civil penalties simply as a cost of doing their illegal

¹¹¹ U.S. CONST. art. I, § 8, cl. 3.

¹¹² Act of Feb. 20, 1905, ch. 592, 33 Stat. 724.

¹¹³ See Kearney, *supra* note 103, at 129.

¹¹⁴ J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 5:3 (4th ed. 2001).

¹¹⁵ Lanham Act of 1946, Pub. L. No. 79-489, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051–1129 (2000)).

¹¹⁶ See PARADISE, *supra* note 56, at 8.

¹¹⁷ See Kearney, *supra* note 103, at 131.

¹¹⁸ 100 U.S. 82, 97-99 (1879).

¹¹⁹ See Act of Oct. 9, 1962, Pub. L. No. 87-773, § 1, 76 Stat. 775 (codified as amended at 18 U.S.C.A. § 2318 (West 2006)).

¹²⁰ S. REP. NO. 98-526, at 1 (1984), as reprinted in 1984 U.S.C.C.A.N. 3627, 3627.

business.”¹²¹ Consequently, Congress passed the 1984 Act¹²² as part of the Comprehensive Crime Control Act of 1984¹²³ to combat counterfeiters emboldened by the lack of criminal sanctions proscribing trafficking in counterfeit merchandise and unfazed by the potential of civil penalties.¹²⁴

The 1984 Act, as initially enacted, subjected anyone who “intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services” to a fine of no more than \$250,000 and a prison sentence no longer than five years, or both.¹²⁵ If the offender was an entity other than an individual, such as an organized crime syndicate or a corporation, it was subject to a maximum fine of \$1 million.¹²⁶ Prior convictions for trafficking in counterfeit goods raised the maximum sentence for an individual to a \$1 million fine, a fifteen year prison sentence, or both, and the maximum fine for an entity other than an individual to \$5 million.¹²⁷ The civil portions of the 1984 Act simultaneously enabled lawful trademark owners to exact stiffer penalties from counterfeiters by mandating that, absent an explicit finding of extenuating circumstances, trial court judges must impose treble damages upon defendants following conviction.¹²⁸ The civil segments also allowed trademark owners to seek ex parte seizures of counterfeit goods bearing their trademarks executed via unannounced raids on locations of known counterfeit goods trafficking activity, and authorized judges to grant such applications if trademark owners

¹²¹ *Id.* at 5, as reprinted in 1984 U.S.C.C.A.N. at 3631.

¹²² Comprehensive Crime Control Act of 1984, Pub. L. No. 98-473, §§ 1501–1503, 98 Stat. 1976, 2178–83 (codified as amended at 18 U.S.C.A. § 2320 & 15 U.S.C.A. §§ 1116–1118 (West 2006)).

¹²³ Pub. L. No. 98-473, 98 Stat. 1976 (codified as amended in scattered sections of 18 U.S.C.).

¹²⁴ See S. REP. NO. 98-526, at 1, as reprinted in 1984 U.S.C.C.A.N. at 3627.

¹²⁵ Pub. L. No. 98-473, § 1502, 98 Stat. 2178, 2178 (current version at 18 U.S.C.A. § 2320(a) (West 2006)).

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ See Pub. L. No. 98-473, § 1503, 98 Stat. 2178, 2182–83 (current version at 15 U.S.C. § 1117(b) (West 2006)).

were able to demonstrate a unique and pressing need for such seizures.¹²⁹

Despite the initial criminal and heightened civil sanctions imposed by the 1984 Act, the trade in counterfeit goods in the United States continued to proliferate at such a rapid rate that only twelve years later, Congress deemed its previous anti-counterfeiting legislation “an inadequate remedy for the explosive growth of criminal commercial counterfeiting.”¹³⁰ Congress reasoned that stiffer penalties were needed because the 1984 Act took into account neither rapid technological advances that rendered the counterfeiting of trademarked goods easier and more lucrative, nor “the extent to which organized crime syndicates, often operating on an international level, would become directly involved in the manufacturing, distributing, selling, and financing of counterfeit products.”¹³¹ Congress initially moved to heighten penalties somewhat surreptitiously when it increased the criminal sanctions faced by defendants convicted of trafficking in counterfeit trademarked goods under 18 U.S.C. § 2320(a) as part of its passage of the massive Violent Crime Control and Law Enforcement Act of 1994.¹³² In the wake of these increases individual defendants with no prior convictions for trademark counterfeiting now face up to \$2 million in fines, and a prison sentence to up to ten years, or both, while fines of up to \$5 million await organizational offenders.¹³³ Predicate individual offenders now face a maximum fine of \$5 million and the potential of a

¹²⁹ See Pub. L. No. 98-473, § 1503, 98 Stat. 2178, 2180–82 (current version at 15 U.S.C. § 1116 (West 2006)).

¹³⁰ See H.R. REP. NO. 104-556, at 2 (1996), as reprinted in 1996 U.S.C.C.A.N. 1074, 1075. Congress noted that while losses attributable to counterfeiting totaled \$5.5 billion in 1982, this figure had ballooned to \$200 billion by 1995. See S. REP. NO. 104-177, at 3 (1995).

¹³¹ S. REP. NO. 104-177, at 3.

¹³² Violent Crime Control and Law Enforcement Act of 1994, Pub. L. No. 103-322, 108 Stat. 1796 (codified as amended in scattered sections of 18 U.S.C., 22 U.S.C., 27 U.S.C. and 42 U.S.C.).

¹³³ Violent Crime Control and Law Enforcement Act of 1994, Pub. L. No. 103-322, sec. 320104, § 2320(a), 108 Stat. 1796, 2110 (codified as amended at 18 U.S.C.A. § 2320 (West 2006)).

twenty-year prison term, or both, while non-individual defendants now meet with fines of up \$15 million.¹³⁴

Congress also made use of the Violent Crime Control and Law Enforcement Act of 1994 to quietly append trafficking in counterfeit trademarked goods in violation of 18 U.S.C. § 2320 to the laundry list of “specified unlawful activities” that can potentially trigger a prosecution under 18 U.S.C. §§ 1956 and 1957, the statutory provisions of the Money Laundering Act.¹³⁵ The first of the two money laundering statutes, § 1956, criminalizes conducting or attempting to conduct a financial transaction when the offender knows the property involved in the transaction represents proceeds derived from some form of unlawful activity and either intends “to promote the carrying on of specified unlawful activity” through the transaction, or commit tax evasion or fraud; or knows that the transaction is designed to “conceal or disguise the nature, the location, the source, the ownership, or the control of the proceeds of specified unlawful activity,” or to avoid federal or state currency reporting requirements.¹³⁶ The second federal money laundering statute, § 1957, makes it illegal to knowingly engage “in a monetary transaction in criminally derived property [that is] of a value greater than \$10,000 and is derived from” one or more of the crimes on the laundry list of specified unlawful activities, which includes trafficking in counterfeit goods and services in violation of § 2320.¹³⁷ The term “monetary transaction” includes all pecuniary activity conducted through financial institutions except for transactions necessary to preserve a criminal defendant’s Sixth Amendment right to counsel.¹³⁸

The inclusion of trafficking in counterfeit trademarked goods and services in violation of 18 U.S.C. § 2320 in the laundry list of

¹³⁴ *Id.*

¹³⁵ See Pub. L. No. 103-322, sec. 320104, § 1956(c)(7)(D), 108 Stat. 1796, 2111 (codified as amended at 18 U.S.C. § 1956(c)(7)(D) (2000)).

¹³⁶ See 18 U.S.C. § 1956(a)(1) (2000).

¹³⁷ See 18 U.S.C. § 1957(a) (2000). Other crimes on the laundry list include destruction of aircraft; violence at international airports; threatening a federal official; concealing assets; firearms trafficking; financing terrorism; and a multitude to other felonies. See 18 U.S.C. § 1956(c)(7)(D) (2000).

¹³⁸ See 18 U.S.C. § 1957(f)(1) (2000).

offenses constituting “specified unlawful activity” for the purposes of the money laundering statutes threatens counterfeit goods traffickers with the prospect of prison sentences of up to twenty years in length, even in the case of a first offense.¹³⁹ Federal prosecutors, for example, can now charge gang members whom they allege employed profits derived from extortion to finance trafficking in counterfeit goods not only with trafficking in counterfeit goods in violation of § 2320, but also with money laundering under 18 U.S.C. § 1956(a)(1). The conduct involved in the financial transaction required to charge a violation of § 1956(a)(1), however, need not be this reprehensible. In fact, it need not even be criminal to constitute money laundering. An individual, whether operating alone or as part of an organized criminal syndicate, who uses proceeds reaped from trafficking in counterfeit Louis Vuitton handbags to purchase legitimate Louis Vuitton goods for his own personal enjoyment, for example, could be found guilty of money laundering under § 1956(a)(1), so long as he intends for his purchase of the legitimate merchandise to conceal the fact that his profits resulted from trafficking in counterfeit goods.¹⁴⁰ He faces the possibility of spending as many as twenty years in federal prison upon conviction.¹⁴¹

Congress, however, believed that in order to substantially curtail the proliferation of the counterfeit goods trade, it needed to go beyond increasing the penalties for violating the criminal provisions of the 1984 Act and including trafficking in counterfeit goods on the laundry list of specified unlawful activities that enables federal prosecutors to bring charges under the money laundering statutes.¹⁴² Consequently, Congress enacted the Anticounterfeiting Consumer Protection Act of 1996 (“1996 Act”) to further increase the civil and criminal penalties for trafficking in

¹³⁹ See 18 U.S.C. § 1956(a)(1).

¹⁴⁰ The money laundering statute does not, however, criminalize the mere spending of money gained through a specified unlawful activity from the laundry list. See *United States v. Sanders*, 929 F.2d 1466, 1472 (10th Cir. 1991). Rather, “by the express terms of the statute, a design to conceal or disguise the source or nature of the proceeds is a necessary element for a money laundering conviction.” *Id.*

¹⁴¹ 18 U.S.C. § 1956(a)(1).

¹⁴² See H.R. REP. NO. 104-556, at 2 (1996), as reprinted in 1996 U.S.C.C.A.N. 1074, 1075.

counterfeit goods and to diversify the statutory conduits through which federal prosecutors and law enforcement authorities can attack individuals and enterprises enmeshed in this illicit industry.¹⁴³ The 1996 Act amended the damages provisions of the Lanham Act by affording trademark owners the option of recovering statutory damages from counterfeiters prior to final judgment;¹⁴⁴ provided for the assessment of civil fines against individuals and entities found to have aided and abetted the importation of counterfeit goods;¹⁴⁵ and authorized the civil forfeiture of vessels, vehicles, and aircraft used to facilitate trafficking in counterfeit merchandise.¹⁴⁶ The 1996 Act is most notable, however, for classifying trafficking in counterfeit goods in violation of § 2320 as a “racketeering activity” constituting a predicate offense subject to prosecution or civil suit under RICO.¹⁴⁷

Consequently, federal law now construes individuals and organized criminal collectives who engage in patterns of trafficking in counterfeit goods as racketeers.¹⁴⁸ Upon conviction of violating a criminal RICO provision, offenders are subject to a prison sentence of no more than twenty years and a maximum fine of twice the gross profits or other proceeds of the offenders’ racketeering activity.¹⁴⁹ The statute also orders mandatory forfeiture of any interest the offender acquired or maintained through the RICO violation, including profits, proceeds and income thereof; any interest the offender has in an enterprise used

¹⁴³ See Pub. L. No. 104-153, 110 Stat. 1386 (codified as amended in scattered sections of 15 U.S.C., 17 U.S.C., 18 U.S.C., 19 U.S.C. and 49 U.S.C.).

¹⁴⁴ See Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, sec. 7, § 1117, 110 Stat. 1386, 1388 (codified as amended at 15 U.S.C.A. § 1117(c) (2006)).

¹⁴⁵ See Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, sec. 10, § 1526, 110 Stat. 1386, 1388–89 (codified as amended at 19 U.S.C.A. § 1526(f) (2006)).

¹⁴⁶ See Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, sec. 13, § 80302, 110 Stat. 1386, 1389–90 (codified as amended at 49 U.S.C. § 80302 (2000)).

¹⁴⁷ See Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, sec. 3, § 1961(a)(3), 110 Stat. 1386, 1386 (codified as amended at 18 U.S.C. § 1961(1)(B) (2000)). For a discussion of the ability of trademark owners to sue counterfeiters under 18 U.S.C. § 1964, RICO’s civil remedies provision, see *infra* Part V.

¹⁴⁸ See *id.*

¹⁴⁹ See 18 U.S.C. § 1963 (2000).

to effectuate the RICO violation; and any contractual right that enabled the offender to wield influence over an enterprise used to violate RICO.¹⁵⁰ The statute's extensive forfeiture provisions constitute one of the most appealing aspects of employing RICO against traffickers of counterfeit goods. Indeed, Congress noted with enthusiasm that "RICO permits law enforcement agents to seize nonmonetary personal and real estate assets connected with the criminal enterprise in addition to the counterfeit goods."¹⁵¹ This is a vital provision in the context of curtailing the counterfeit goods trade, because it enables federal agents not only to seize counterfeiters' supplies of illicit goods, but also to eradicate the means upon which counterfeiters rely for future production.¹⁵²

Any offender, whether individual or organizational, now violates 18 U.S.C. § 1962(a) when the offender employs profits obtained through a pattern of trafficking in counterfeit goods to establish an enterprise engaged in interstate or foreign commerce, even if such an enterprise is not unlawful in and of itself, and violates § 1962(b) when the offender uses profits netted through a pattern of trafficking in counterfeit goods to maintain an interest in such a venture.¹⁵³ Individual offenders employed by or associated with an enterprise engaged in interstate or foreign commerce, including by definition any organized crime syndicates involved with the importation of counterfeit goods from Asia, violate § 1962(c) when they conduct the affairs of such an enterprise through a pattern of trafficking in counterfeit goods.¹⁵⁴ In order to secure a conviction for conspiring to violate RICO under § 1962(d), prosecutors need not prove that at least one of the conspirators committed an overt act to effectuate the object of the

¹⁵⁰ *See id.*

¹⁵¹ *See* H.R. REP. NO. 104-556, at 7 (1996), *as reprinted in* 1996 U.S.C.C.A.N. 1074, 1079-80.

¹⁵² Congress views the looming prospect of expansive civil forfeiture provisions as so crucial to curtailing the counterfeit goods trade that it included such provisions in § 2320 with its recent amendment of that statute. *See* Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, sec. 1-2, § 2320, 120 Stat. 285, 285 (2006) (codified as amended at 18 U.S.C.A. § 2320 (West 2006)).

¹⁵³ *See* 18 U.S.C. § 1962 (2000).

¹⁵⁴ *See id.*

conspiracy as is required under the general conspiracy statute.¹⁵⁵ Nor must prosecutors demonstrate that a conspirator committed or agreed to commit the two predicate acts necessary to create the pattern of racketeering activity required for a RICO conviction in order to secure a conviction for conspiracy to violate RICO.¹⁵⁶ In order to obtain a conviction for conspiracy to violate RICO, prosecutors must establish only that an offender embraced the goal of furthering an illicit enterprise, which, if completed, would fulfill the requirements of a substantive RICO offense.¹⁵⁷

While the apparent ease of securing a conviction for conspiring to violate RICO might lead one to conclude that the government could all but eradicate the counterfeit goods trade in the United States by charging everyone on the distribution chain, from street-level vendors upwards, under § 1962(d), the intricacies of applying the RICO provisions belie such a position. Prosecutions of traffickers of counterfeit goods under RICO are bound by the same statutory encumbrances that plague all RICO actions, which perhaps explains the scant record of criminal prosecutions of traffickers of counterfeit goods under RICO.¹⁵⁸ The greatest hurdle prosecutors must surmount in all RICO actions is the establishing of the existence of a pattern of racketeering activity. Section 1961 merely states that a pattern requires at least two acts of racketeering activity to occur within ten years of one another.¹⁵⁹ The Supreme Court has held “that to prove a pattern of racketeering activity a plaintiff or prosecutor must show that the racketeering predicates are related, *and* that they amount to or pose a threat of continued criminal activity.”¹⁶⁰

This governing two-pronged formulation for determining the existence of a pattern of racketeering activity, commonly referred

¹⁵⁵ See *Salinas v. United States*, 522 U.S. 52, 63 (1997). See also 18 U.S.C. § 371 (the general conspiracy statute).

¹⁵⁶ See *Salinas*, 522 U.S. at 64.

¹⁵⁷ See *id.* at 65.

¹⁵⁸ Despite the fact that trafficking in counterfeit goods and services in violation of 18 U.S.C. § 2320 (West 2006) has been a predicate violation for RICO purposes for ten years, there are to date no cases addressing the prosecution of traffickers of counterfeit goods under RICO provisions present in the federal record.

¹⁵⁹ See 18 U.S.C. § 1961 (2000).

¹⁶⁰ *H.J. Inc. v. Northwestern Bell Tel. Co.*, 492 U.S. 229, 239 (1989).

as the “continuity plus relationship test,” while still purposefully amorphous, demarcates approximate boundaries of what constitutes a pattern.¹⁶¹ Under this conceptualization, while a group of otherwise legitimate business owners who collaborate to import a single container filled with counterfeit goods on one occasion fails to meet the continuity prong, a loose assemblage of criminals, some of whom traffic in counterfeit goods while others perpetrate environmental crimes, falls short of meeting the relationship requirement.¹⁶² At the opposite end of the spectrum, an organized criminal syndicate that systematically imports and distributes shipments of counterfeit goods and uses the profits it derives from this illicit activity to establish underground gambling operations clearly fulfills both prongs of the continuity-plus-relationship test.¹⁶³ In practice, however, the existence of a pattern of racketeering activity is rarely so clear-cut. Moreover, to attain a criminal § 1962(c) conviction, prosecutors must prove beyond a reasonable doubt that an enterprise existed as laid out in the indictment; that the enterprise influenced interstate commerce; that the defendant was associated with the enterprise; and that the defendant knowingly participated in the conduct of the enterprise through a pattern of racketeering activity.¹⁶⁴ These burdensome requirements dissuade prosecutors from instituting criminal RICO actions against traffickers of counterfeit goods, particularly in light of the ready availability of § 2320, a statute specifically tailored to attack the ills of the counterfeit goods industry, that subsequent to its recent amendment by Congress’ through the Stop Counterfeiting in Manufactured Goods Act (“Stop Act”),¹⁶⁵ rivals RICO in potency.

Amidst its zealous efforts to increase the penalties for trafficking in counterfeit goods and its enactment of various schemes aimed at diversifying the statutory avenues through which prosecutors and law enforcement agencies could pursue and thwart

¹⁶¹ *See id.*

¹⁶² *See id.* at 242–43.

¹⁶³ *See id.*

¹⁶⁴ *See United States v. Perholtz*, 842 F.2d 343, 354 (D.C. Cir. 1988).

¹⁶⁵ Pub. L. No. 109-181, sec. 1–2, § 2320, 120 Stat. 285, 285 (2006) (codified as amended at 18 U.S.C.A. § 2320 (West 2006)).

counterfeit goods traffickers, Congress for a time lost sight of § 2320, the only federal statute that exists specifically to counteract counterfeiting. When Congress originally enacted § 2320 as the criminal component of the 1984 Act,¹⁶⁶ the statute subjected anyone who “intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark *on or in connection with* such goods or services” to the potential of fines and incarceration following conviction.¹⁶⁷ This portion of § 2320 retained its original language until the holding of the Court of Appeals for the Tenth Circuit in *United States v. Giles*¹⁶⁸ persuaded Congress to redouble its focus on § 2320 and precipitate a wholesale reinvention of the statute through its execution of the Stop Act.¹⁶⁹

Donald Ralph “Sonny” Giles owned a business named “Fabulous Fakes,” which predictably specialized in selling look-alike versions of branded luxury goods at deeply discounted prices.¹⁷⁰ Giles also sold certain items in bulk at wholesale prices, such as so-called patch sets displaying the trademarked logo of Dooney & Bourke, an American luxury goods purveyor and manufacturer of high-end handbags, luggage and other fashion accessories.¹⁷¹ The patch sets Giles sold were composed of a leather patch and a gold medallion, both of which featured the Dooney & Bourke logo, accompanied by a leather strap used to affix the medallion to a handbag.¹⁷² Once the recipient of a patch set affixed the leather patch bearing Dooney & Bourke’s logo onto a generic, non-branded purse or piece of luggage, it would appear that Dooney & Bourke manufactured the generic item.¹⁷³ Upon learning of Giles’ patch set bulk sales, FBI agents established an

¹⁶⁶ Comprehensive Crime Control Act of 1984, Pub. L. No. 98-473, §§ 1501–1503, 98 Stat. 1976, 2178–83 (codified as amended at 18 U.S.C.A. § 2320 & 15 U.S.C.A. §§ 1116–1118 (West 2006)).

¹⁶⁷ Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, § 1502, 98 Stat. 2178, 2178 (current version at 18 U.S.C.A. § 2320 (West 2006)) (emphasis added).

¹⁶⁸ 213 F.3d 1247 (10th Cir. 2000).

¹⁶⁹ Pub. L. No. 109-181, sec. 1–2, § 2320, 120 Stat. 285, 285 (2006) (codified as amended at 18 U.S.C.A. § 2320 (West 2006)).

¹⁷⁰ *Giles*, 213 F.3d at 1248.

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ *Id.*

undercover operation and used a confidential informant to purchase a bulk order of patch sets.¹⁷⁴ After only two exchanges with the informant, Fabulous Fakes shipped 1,000 patch sets displaying the Dooney and Bourke logo to Oklahoma, where the FBI seized them.¹⁷⁵ Giles was convicted of violating 18 U.S.C. § 2320 following a jury trial.¹⁷⁶ The Tenth Circuit, however, reversed Giles' conviction, holding that the patch sets were not goods under § 2320, and that § 2320 does not proscribe trafficking in counterfeit labels when the labels are not used on or in connection with other goods.¹⁷⁷

If the Tenth Circuit's holding in *Giles* did not provoke the ire of the legislature, it certainly piqued their attention. Prior to *Giles*, Congress' chief strategy in its battle against counterfeit goods trafficking was to include violations of § 2320 as predicate offenses in laundry list statutes known for their stiff fines and lengthy prison sentences—such as RICO¹⁷⁸ and the Money Laundering Act¹⁷⁹—with the hope that such inclusions would discourage traffickers from continuing to ply the counterfeit goods trade. Traffickers, however, appreciating that the severity of potential penalties is meaningless when one is all but certain not to be caught, proved to be undaunted by the ominous range of statutes under which the government hypothetically could, but in practice did not, prosecute.¹⁸⁰ As even its own reports grudgingly admit, Congress' dalliances with combating counterfeit goods trafficking through statutes packing stiff penalties but suffering from only tangential relation to the counterfeit merchandise industry were ineffective in the overall fight against trademark counterfeiting.¹⁸¹ It took the Tenth Circuit's de facto invalidation of § 2320 in *Giles*,¹⁸² however, for Congress to recognize that in attempting to

¹⁷⁴ *Id.*

¹⁷⁵ *Id.*

¹⁷⁶ *Id.*

¹⁷⁷ *Id.* at 1251–53.

¹⁷⁸ 18 U.S.C. §§ 1961–1968 (2000).

¹⁷⁹ 18 U.S.C. §§ 1956–1957 (2000).

¹⁸⁰ See Christopher M. Dolan, *Fits Over Counterfeiting: Legislative Accomplishments and Directions*, 27 AIPLA Q.J. 233, 253 (1999).

¹⁸¹ See, e.g., H.R. REP. NO. 104-556, at 1–2 (1996), as reprinted in 1996 U.S.C.A.N. 1074, 1074–75.

¹⁸² See *supra* note 170 and accompanying text.

eradicate the counterfeit goods trade, deterrence is attained not through the severity of an improbable punishment, but through the certainty of a likely sanction.¹⁸³

In the wake of *Giles*, Congress radically reassessed the manner in which it fought the proliferation of the counterfeit goods trade through federal criminal legislation and redoubled its attention to § 2320.¹⁸⁴ The Stop Act constitutes the culmination of Congress' reconstruction of the federal statutory enforcement scheme proscribing trafficking in counterfeit goods.¹⁸⁵ The new, improved, and more potent § 2320 handily dispenses with the issues raised by the Tenth Circuit in *Giles* in its first section, which includes a new clause threatening any offender who "intentionally traffics or attempts to traffic in labels, patches, stickers, wrappers, badges, emblems, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature, knowing that a counterfeit mark has been applied thereto"¹⁸⁶ with the heightened fines and prison sentences enacted under the Violent Crime Control and Law Enforcement Act of 1994.¹⁸⁷ This new addition to § 2320, if rigorously enforced, has the ability to markedly hinder the operations counterfeiters who attempt to skirt the law by importing apparel into the United States unbranded only to affix labeling bearing counterfeit trademarks on American soil, without resorting to the severe and untenable tactic of outlawing the importation of unbranded products. The clause effects this aim by heeding the call of a number of critics to criminalize trafficking in the counterfeit marks themselves, irrespective of whether they are attached to other goods.¹⁸⁸

Congress' modifications of § 2320 through the Stop Act, however, do not end with this provision. To the contrary, the Stop Act appends to § 2320 a civil forfeiture scheme triggered upon

¹⁸³ See Dolan, *supra* note 180, at 253.

¹⁸⁴ See Pub. L. No. 109-181, sec. 1-2, § 2320, 120 Stat. 285, 285 (2006) (codified as amended at 18 U.S.C.A. § 2320 (West 2006)).

¹⁸⁵ *Id.*

¹⁸⁶ Pub. L. No. 109-181, sec. 1-2, § 2320, 120 Stat. 285, 285 (2006) (codified as amended at 18 U.S.C.A. § 2320(a) (West 2006)).

¹⁸⁷ Pub. L. No. 103-322, 108 Stat. 1796 (codified as amended in scattered sections of 18 U.S.C., 22 U.S.C., 27 U.S.C. and 42 U.S.C.).

¹⁸⁸ See, e.g., Amendolara, *supra* note 57, at 829.

conviction that surpasses RICO's in severity.¹⁸⁹ Under the updated statute, once a defendant is convicted of violating § 2320, the court is required by law to impose upon the defendant, in addition to any fine or prison sentence, mandatory civil forfeiture of any property amounting to or derived from any proceeds obtained through trafficking in counterfeit goods, such as a house; any property used, or intended to be used, to traffic in, or facilitate, aid or abet the trafficking of counterfeit goods, such as a vehicle; and any property that displays or consists of a counterfeit trademark.¹⁹⁰ It is not difficult to imagine these provisions of the updated § 2320, which do not contain a mercy clause for extenuating circumstances, forcing a defendant to relinquish all his worldly possessions upon conviction. This mandatory, inflexible civil forfeiture provision imposes on traffickers of counterfeit goods a certainty of punishment following conviction previously unseen in the realm of criminal trademark counterfeiting legislation.¹⁹¹ With suitable application of the statute, the updated § 2320 should serve as a strong deterrent to counterfeiters.

The extent to which federal prosecutors and law enforcement agencies will make use of the increased potency of the updated § 2320, however, remains to be seen. Prosecutors of course remain free to seek indictments under any number of statutes when trying defendants for the substantive crime of trafficking in counterfeit trademarked goods,¹⁹² but prosecuting a trafficker of counterfeit goods under the updated § 2320 is likely preferable to resorting to other more convoluted statutes. The inherent complexity of a

¹⁸⁹ See Pub. L. No. 109-181, sec. 1-2, § 2320, 120 Stat. 285, 285 (2006) (codified as amended at 18 U.S.C.A. § 2320(b)(1) (West 2006)).

¹⁹⁰ *Id.*

¹⁹¹ See *supra* note 180 and accompanying text.

¹⁹² In addition to the statutes already discussed at length in this essay, federal prosecutors can charge two or more defendants collaborating with one another to traffic in counterfeit goods with conspiracy under 18 U.S.C. § 317 (2000). See, e.g., *United States v. Yamin*, 868 F.2d 130, 133 (5th Cir. 1989). The crimes of conspiring to traffic and attempting to traffic in counterfeit goods may be established even if § 2320 is not actually violated. See *United States v. Foote*, 238 F. Supp. 2d 1271, 1279 (D. Kan. 2002). Prosecutors can also charge an offender who employs the mails to traffic in goods bearing counterfeit trademarks that the offender holds out as legitimate with mail fraud under 18 U.S.C. § 1341 (2000), or with wire fraud under 18 U.S.C. § 1343 (2000) for perpetrating analogous conduct via telephone or internet activity.

RICO prosecution plays a focal role in limiting the number of RICO prosecutions launched based on unconventional RICO predicate offenses such as § 2320 violations. It is exponentially easier for a prosecutor to prove beyond a reasonable doubt the two straightforward mens rea prongs required to secure a conviction under § 2320—that the defendant intended to traffic in goods and knew they were counterfeit¹⁹³—than it is to prove the multitude of elements upon which a RICO conviction must be predicated.¹⁹⁴ The relative simplicity of the updated § 2320 coupled with its severe civil forfeiture provisions obviates the need to employ RICO in counterfeit goods trafficking prosecutions. The extent to which prosecutors employ the new § 2320 in the coming months will soon demonstrate whether the resolve to diligently enforce criminal trademark counterfeiting laws has finally arrived.

IV. NEW YORK'S STATUTORY TREATMENT OF CRIMINAL TRADEMARK COUNTERFEITING IS INCOMPLETE

While a number of states have enacted legislation imposing a range of criminal penalties for trafficking in counterfeit trademarked goods,¹⁹⁵ the high concentration of activity emanating out of Lower Manhattan¹⁹⁶ renders the provisions of the New York Penal Law applicable to individuals and organized crime groups who traffic in counterfeit trademarked merchandise particularly salient examples of state-level statutory anti-counterfeiting enforcement schemes. As a consequence of the federal government's overarching regulatory authority over trademarks, the New York Penal Law's models its definitions of the terms "trademark" and "counterfeit trademark" on definitions of the same terms in the United States Code.¹⁹⁷ Apart from these

¹⁹³ See *United States v. Baker*, 807 F.2d 427, 429 (5th Cir. 1986); *United States v. Infurnari*, 647 F. Supp. 57, 58 (W.D.N.Y. 1986).

¹⁹⁴ See *supra* note 164 and accompanying text.

¹⁹⁵ See, e.g., CAL. PENAL CODE § 350 (West 2006); 765 ILL. COMP. STAT. 1040/2 (2006); S.C. CODE ANN. § 39-15-1190 (2006).

¹⁹⁶ See *supra* note 44 and accompanying text.

¹⁹⁷ Compare N.Y. PENAL LAW § 165.70 (McKinney 2006) (defining a trademark as "any word, name, symbol, or device, or any combination thereof adopted and used by a person to identify goods made by a person and which distinguish them from those manufactured

definitional similarities, however, § 2320 bears little resemblance to its statutory brethren at the state level.¹⁹⁸ The New York Penal Law's stratified codification scheme separates the action of trafficking in goods bearing counterfeit trademarks into three distinct but closely related crimes distinguishable by their ascending levels of severity.¹⁹⁹

The basic trademark counterfeiting offense under New York law is trademark counterfeiting in the third degree,²⁰⁰ a class-A misdemeanor offense punishable by no more than one year in jail.²⁰¹ An offender is guilty of violating this provision when “with the intent to deceive or defraud . . . or . . . evade a lawful restriction on the sale . . . or distribution of goods, he or she manufactures, distributes, sells, or offers for sale goods which bear a counterfeit trademark, or possesses a trademark knowing it to be counterfeit

or sold by others which is in use and which is registered, filed or recorded under the laws of this state or of any other state is registered in the principal register of the United States patent and trademark office[.]” and a counterfeit trademark as “a spurious trademark or an imitation of a trademark that is (a) used in connection with trafficking in goods; and (b) used in connection with the sale, offering for sale or distribution of goods that are identical with or substantially indistinguishable from a trademark . . .”), with 15 U.S.C. § 1127 (2000) (defining a trademark as “any word, name, symbol, or device, or any combination thereof—(1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principle register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”), and 18 U.S.C.A. § 2320(e)(1)(A) (West 2006) (defining a counterfeit trademark as “(A) a spurious mark—(i) that is used in connection with trafficking in any goods, services, labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation or packaging of any type or nature; (ii) that is identical with, or substantially indistinguishable from, a mark registered on the principal register in the United States Patent and Trademark Office and in use, whether or not the defendant knew such mark was registered; (iii) that is applied to or used in connection with the goods and services for which the mark is registered with the United States Patent and Trademark Office, or is applied to or consists of a label, patch, sticker, wrapper, badge, emblem, medallion, charm, box, container, can, case, hangtag, documentation or packaging of any type or nature that is designed, marketed, or otherwise intended to be used on or in connection with the goods or services for which the mark is registered in the United States Patent and Trademark Office; and (iv) the use of which is likely to cause confusion, to cause mistake, or to deceive . . .”).

¹⁹⁸ See *supra* note 195; 18 U.S.C.A. § 2320 (West 2006).

¹⁹⁹ See N.Y. PENAL LAW §§ 165.71–165.72 (McKinney 2006).

²⁰⁰ N.Y. PENAL LAW § 165.71 (McKinney 2006).

²⁰¹ N.Y. PENAL LAW § 70.15 (McKinney 2006).

for the purpose of affixing it to any goods.”²⁰² The more serious offenses of trademark counterfeiting in the second degree, a class-E felony with a maximum prison sentence of four years,²⁰³ and trademark counterfeiting in the first degree, a class-C felony carrying a maximum prison sentence of fifteen years,²⁰⁴ are identical to the lesser offense of trademark counterfeiting in the third degree, save the “retail value” of the goods counterfeit. When the retail value of the goods bearing counterfeit marks surpasses \$1,000, trademark counterfeiting in the third degree becomes trademark counterfeiting in the second degree,²⁰⁵ while when the retail value of the goods bearing counterfeit trademarks surpasses \$100,000, the offense becomes trademark counterfeiting in the first degree.²⁰⁶

The use of “retail value” figures to stratify what are effectively identical criminal acts into three distinct crimes constitutes one of the more intriguing aspects of New York’s statutory treatment of trademark counterfeiting and poses an interesting contrast to federal law. When the trademark counterfeiting statutes first came into effect in 1992, the statutes defined “value” as the “value of such goods, or trademark.”²⁰⁷ The “retail value” measure arose out of *People v. Kim*,²⁰⁸ when prosecutors sought to indict a defendant arrested in connection with police officers’ seizure of 8,000 counterfeit handbags on charges of trademark counterfeiting in the first degree, on the premise that the value of the trademarks at issue, calculated on the basis of worldwide sales of the holders of the trademarks, easily surpassed the \$100,000 threshold.²⁰⁹ The court declined to adopt this novel prosecutorial formulation, holding instead that value should be “calculated as the incremental value given to the goods by the affixing of the appropriated

²⁰² N.Y. PENAL LAW § 165.71.

²⁰³ N.Y. PENAL LAW §§ 70.00, 165.72 (McKinney 2006).

²⁰⁴ N.Y. PENAL LAW §§ 70.00, 165.73 (McKinney 2006).

²⁰⁵ N.Y. PENAL LAW § 165.72.

²⁰⁶ N.Y. PENAL LAW § 165.73.

²⁰⁷ N.Y. PENAL LAW § 165.70 cmt. (McKinney 2006) (William C. Donnino, Practice Commentary).

²⁰⁸ 621 N.Y.S.2d 479 (Sup. Ct. N.Y. County 1994).

²⁰⁹ *Id.* at 480.

trademark.”²¹⁰ Subsequent to *People v. Kim*, the Legislature amended the definition of value to “the retail value of all such goods bearing counterfeit trademarks.”²¹¹ Unerring adherence to this formulation, however, drives prosecutors and law enforcement agents to chase always after the largest distributors of counterfeit goods, often at the expense of ignoring smaller-scale traffickers.²¹² Prosecutors are able to charge high-volume wholesalers based on the retail value of the counterfeit goods they recover, despite the fact that the wholesalers’ sale price is by definition below the retail price of the merchandise.²¹³

The federal analogue of the New York state statutes, § 2320, does not follow suit in assigning various traffickers of counterfeit goods to predetermined strata of criminal culpability based on the retail value of their counterfeit goods.²¹⁴ More curiously, § 2320 also does not impose a liability baseline beneath which its provisions are inapplicable.²¹⁵ Under New York state law, prosecutors can only charge defendants caught with counterfeit trademarked goods the retail value of which is less than the \$1,000 liability floor with a misdemeanor.²¹⁶ There is no federal misdemeanor for minor violations of § 2320.²¹⁷ Two theories explain the absence of such a penalty, which would be ideal for use against low-level traffickers of counterfeit trademarked goods. First, Congress may believe that trafficking in counterfeit goods is so grave a crime that even the most minor instances of such conduct, if discovered by law enforcement authorities, warrant felony charges. The second, and more probable, explanation is that Congress finds that at its lowest levels, trafficking in counterfeit goods is not an appropriate province for federal legislation. The notion that one can technically face federal felony charges under § 2320 for a single isolated sale of a counterfeit paperweight nonetheless remains unsettling.

²¹⁰ *Id.* at 481–82.

²¹¹ See N.Y. PENAL LAW §§ 165.72–165.73 (McKinney 2006).

²¹² N.Y. PENAL LAW § 165.70 cmt. (William C. Donnino, Practice Commentary).

²¹³ See *supra* notes 205–210 and accompanying text.

²¹⁴ See 18 U.S.C.A. § 2320 (West 2006).

²¹⁵ See *id.*

²¹⁶ N.Y. PENAL LAW §§ 165.71–165.72 (McKinney 2006).

²¹⁷ See 18 U.S.C.A. § 2320.

The glaring absence of the trademark counterfeiting statutes from New York's enterprise corruption²¹⁸ and money laundering statutes²¹⁹ is even more perplexing. Like RICO and the Money Laundering Act, New York's enterprise corruption and money laundering statutes include enumerated laundry lists of crimes constituting predicate acts that may underpin convictions under the relevant substantive statute.²²⁰ In contrast to the federal statutory scheme, where § 2320 is catalogued as both a laundry list offense for the Money Laundering Act and a predicate offense for RICO, none of New York's trademark counterfeiting statutes are "criminal act" predicates for its enterprise corruption and money laundering statutes.²²¹ While the omission of trademark counterfeiting in the third degree is expected, the absence of trademark counterfeiting in the second, and even more so in the first, degree is confounding.

The Legislature added the trademark counterfeiting crimes to the Penal Law because it "believed that prosecution of those who specialize in fraud by the use of counterfeit trademarks would be facilitated by creation of a crime specifically tailored to cover such conduct."²²² It apparently did not believe, however, that corrupt enterprises could systematically perpetrate a pattern of fraud through the use of counterfeit trademarks, or that narcotics traffickers could use the sale of goods bearing counterfeit trademarks as means of laundering the profits from their narcotics sales.²²³ The Legislature's omission of felony-level trademark counterfeiting from the list of "criminal act" predicates appears so unfounded that it might be the result of an oversight. If, however, the Legislature consciously omitted felony trademark counterfeiting from the "criminal act," its dedication to diligent governmental enforcement of criminal trademark counterfeiting laws is cast in serious doubt.

²¹⁸ Organized Crime Control Act, N.Y. PENAL LAW §§ 460.00–460.80 (McKinney 2006).

²¹⁹ N.Y. PENAL LAW §§ 470.00–470.25 (McKinney 2006).

²²⁰ See N.Y. PENAL LAW §§ 460.10(1)(a), 470.00.

²²¹ See N.Y. PENAL LAW § 460.10.

²²² N.Y. PENAL LAW § 165.70 cmt. (McKinney 2006) (William C. Donnino, Practice Commentary).

²²³ See *supra* note 221.

V. UNCONVENTIONAL CIVIL ENFORCEMENT MEASURES ARE EFFECTIVE IN THWARTING COUNTERFEITERS

Lawful trademark owners cannot rely upon governmental actors to enforce the criminal statutory schemes that proscribe trademark counterfeiting.²²⁴ Trademark holders who insist on vigorous protection of their brands against the intrusions of counterfeiters must thus take unilateral civil action against traffickers of goods bearing their counterfeit trademarks. The Lanham Act affords trademark owners the most immediate means through which to pursue counterfeiters.²²⁵ Under the Lanham Act's recovery provisions, once a trademark holder prevails in a civil action against a counterfeiter, the trademark owner may recover from the counterfeiter any profits the counterfeiter attained by using the owner's counterfeit trademark and any damages suffered by the plaintiff as a consequence of the counterfeiting, as well as court costs.²²⁶ The Lanham Act additionally mandates that, absent an explicit finding of exigent circumstances, the presiding trial court judge must by law award treble damages and attorneys' fees to the trademark owner,²²⁷ and offers trademark holders the opportunity to elect at any time prior to the court's imposition of final judgment to recover statutory damages in place of actual damages and profits.²²⁸

While these recovery provisions suggest that the Lanham Act²²⁹ provides trademark owners with ample opportunities to attain pecuniary compensation and damages from counterfeiters, the reality remains that most civil remedies remain largely ineffective because counterfeiters hide their assets so cunningly that recovery becomes impossible.²³⁰ The Lanham Act's mandatory imposition of treble damages²³¹ against civil defendants adjudged to be counterfeiters may appear to be a powerful weapon

²²⁴ See generally Neumer, *supra* note 22.

²²⁵ See 15 U.S.C.A. §§ 1051–1129 (West 2006).

²²⁶ See 15 U.S.C.A. § 1117(a) (West 2006).

²²⁷ See 15 U.S.C.A. § 1117(b) (West 2006).

²²⁸ See 15 U.S.C.A. § 1117(c) (West 2006).

²²⁹ See 15 U.S.C.A. § 1117 (West 2006).

²³⁰ See Kolsun & Bayer, *supra* note 20, at 385–86.

²³¹ See 15 U.S.C.A. § 1117(b).

in fighting trademark counterfeiting, but treble damages pose neither a threat nor a concern to wily counterfeiters who manipulate their finances to suggest they own no assets against which courts can assess damages.²³² Counterfeit goods traffickers who file for bankruptcy, whether feigned or legitimate, as well as those who respond to a court's assessment of a civil judgment against them with an outright refusal to comply with its terms, pose additional significant impediments to rightful trademark owners seeking to curb the counterfeiting of their brands through civil action.²³³

The Lanham Act²³⁴ also fails to provide lawful trademark owners who unearth counterfeit iterations of their trademarked goods for sale in otherwise reputable retail outlets with a suitable remedy. The Third Circuit's decision in *Gucci America, Inc. v. Daffy's, Inc.*²³⁵ illustrates the precise nature of this deficiency. This case arose when Daffy's, a discount clothing retail chain, acquired what it believed to be 594 authentic Gucci "Jackie-O" handbags in three different sizes from a Sara's Collection, Inc., a reputable supplier that Daffy's had purchased products from in the past.²³⁶ Daffy's attempted to authenticate these bags by dispatching an employee to a Gucci outlet store with one of the bags in hand, where a Gucci clerk confirmed the bag was genuine.²³⁷ Daffy's also sent one of the bags to the Gucci repair center in New York, which fixed the bag and returned it to Daffy's with no additional inquiry.²³⁸ Daffy's eventually sold 588 of these 594 bags, reaping a gross profit of \$51,064.12.²³⁹ Daffy's maintained it remained blissfully unaware of any problem with the bags until it received a letter from Gucci attorneys indicating the bags, while of startlingly high quality, were in fact counterfeit.²⁴⁰ Gucci shortly thereafter filed a suit against Daffy's in the U.S.

²³² See Peterson, *supra* note 44, at 492.

²³³ See *id.*

²³⁴ 15 U.S.C.A. §§ 1051–1129 (West 2006).

²³⁵ 354 F.3d 228 (3d Cir. 2003).

²³⁶ *Id.* at 229.

²³⁷ *Id.* at 230.

²³⁸ *Id.*

²³⁹ *Id.* at 245 (Rosenn, J., dissenting).

²⁴⁰ See *id.* at 230 (majority opinion).

District Court for the District of New Jersey, in which it sought to obtain Daffy's profits from its sale of the counterfeit bags, and to enjoin Daffy's from further use of the Gucci trademark.²⁴¹ The district court ruled that Gucci was entitled to neither an injunction against Daffy's, nor the discount retailer's profits from its sale of the bags bearing counterfeit Gucci trademarks.²⁴² The Third Circuit, in a two-to-one split decision, affirmed, holding that because Gucci could not prove that Daffy's knew the bags were counterfeit, it could not recover profits from the discount retailer.²⁴³ The court concluded that "[t]he price and quality of the of the handbags at issue, the small number of the bags sold, Daffy's status as an innocent infringer, and the possibility that Gucci could recover from the actual manufacturer of the bags all weigh against awarding profits."²⁴⁴

The Third Circuit's assertion that Gucci might be able to recover from the counterfeiters themselves is of course little more than pretense,²⁴⁵ but it is nonetheless disquieting in its offhandedness. Equally unnerving is the circuit court's affirmation of the lower court's holding that Daffy's was an innocent infringer based solely on the fact that Daffy's had one of the bags authenticated by a retail clerk in a Gucci outlet store and sent another bag to Gucci's service center for repair.²⁴⁶ Most unsettling of all, however, is the fact that the Third Circuit's holding in *Gucci America* may have emboldened other seemingly reputable discount retailers to dabble in the sale of ersatz luxury goods items bearing counterfeit trademarks. In June of 2006, Fendi, a subsidiary of Louis Vuitton Moet Hennessy ("LVMH"), filed suit against Wal-

²⁴¹ See *id.* at 228, 230, 231.

²⁴² See *id.* at 231.

²⁴³ See *id.* at 228, 242, 243.

²⁴⁴ *Id.* at 242–43.

²⁴⁵ See *supra* notes 232–233 and accompanying text.

²⁴⁶ See *Gucci America*, 354 F.3d at 244–45 (Rosenn, J., dissenting) (Daffy's perfunctory attempt to authenticate the bags "was simply a superficial effort to cover itself in the event of a lawsuit. Daffy's did not take the bag to the store manager or to someone in authority in the Gucci organization who was familiar with the construction of the bag. It satisfied its concern by asking some unknown retail clerk of unknown experience, of unknown authority, and with unknown familiarity with the intricacies of bag construction, to confirm the authenticity of the bag. It also sent a damaged bag to the Gucci repair center without any specific inquiry as to the authenticity of the bag.").

Mart Stores, Inc. in the U.S. District Court for the Southern District of New York, alleging that a number of stores in Wal-Mart's Sam's Club wholesale club chain were selling handbags and other leather goods bearing counterfeit Fendi trademarks.²⁴⁷ While Fendi is seeking an injunction and damages, Wal-Mart maintains the handbags and leather goods its Sam's Club stores are selling are authentic Fendi products, not counterfeits.²⁴⁸ Even if the handbags and leather goods ultimately prove themselves to be counterfeit, however, Fendi's ability to recover profits from Wal-Mart in the wake of *Gucci America* is uncertain at best.

No doubt because of the problems lawful trademark owners encounter attempting to recover against counterfeiters under the Lanham Act,²⁴⁹ when Congress enacted the 1996 Act²⁵⁰ it appeared that the legislature was nearly as enthusiastic about the prospect of lawful trademark owners employing 18 U.S.C. § 1964(c), the civil remedies section of RICO, against counterfeiters as it was about bestowing upon federal prosecutors the ability to combat the counterfeit goods trade through the statutory heavy weaponry of RICO's criminal provisions.²⁵¹ Under § 1964(c), any individual or entity that suffers an injury to his business or property as the result of a violation of § 1962 has the ability to sue an offender to recover treble damages and attorneys' fees.²⁵² While a civil RICO plaintiff must allege all the elements required to secure a criminal RICO conviction, a civil RICO plaintiff needs to prove these elements only by a preponderance of the evidence.²⁵³ Few lawful trademark owners, however, have made use of RICO's civil action provision to pursue counterfeiters, because § 1964(c) affords trademark owners no ability to make additional pecuniary recoveries against

²⁴⁷ See *Fendi Says Wal-Mart Is Selling Counterfeits*, WALL ST. J., June 12, 2006, at B3; *Fendi Sues Wal-Mart on Counterfeiting*, WOMEN'S WEAR DAILY, June 13, 2006, at 2.

²⁴⁸ See *Fendi Sues Wal-Mart on Counterfeiting*, *supra* note 247.

²⁴⁹ 15 U.S.C.A. §§ 1051–1129 (West 2006).

²⁵⁰ Pub. L. No. 104-153, 110 Stat. 1386 (codified as amended in scattered sections of 15 U.S.C., 17 U.S.C., 18 U.S.C., 19 U.S.C. and 49 U.S.C.).

²⁵¹ See H.R. REP. NO. 104-556, at 6–7 (1996), as reprinted in 1996 U.S.C.C.A.N. 1074, 1080–81.

²⁵² 18 U.S.C. § 1964(c) (2000).

²⁵³ See *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 491, 496 (1985).

counterfeiters over and above those authorized under the Lanham Act.²⁵⁴ Additionally, though it is more difficult and time-consuming to prove a RICO violation, even by a lower preponderance of the evidence standard, than it is to prove a Lanham Act violation, plaintiffs seeking to recover under both statutes face the same significant impediments in attaining actual pecuniary recovery against counterfeiters. Lawful trademark owners thus have little incentive to employ § 1964(c) to protect their brands.

The most obvious means of circumventing the obstacles that hinder trademark owners' ability to recover from counterfeiters has proven to be one of the most effective: taking action against the individuals and entities that enable traffickers of counterfeit goods to ply their illicit trade, rather than pursuing counterfeiters directly. The ability of trademark owners to initiate action against parties who facilitate counterfeit goods traffickers' unlawful business is rooted in the judicially-constructed doctrine of contributory trademark liability.²⁵⁵ Under this doctrine, trademark holders may sue parties that provide the site and facilities for known counterfeit goods trafficking activities.²⁵⁶ Plaintiffs typically fulfill the crucial component of the doctrine—that the third party enabler knows counterfeiters are using the site or facilities it owns to traffic in counterfeit goods—by sending notice letters to the enablers averring to illicit use.²⁵⁷ Courts hold that willful blindness on the part of an enabler constitutes knowledge under the doctrine.²⁵⁸ If a trademark owner is unable to show actual knowledge or willful blindness, but can demonstrate that the enabler has reason to know of the counterfeit goods trafficking activity, the trademark holder

²⁵⁴ Compare 18 U.S.C. § 1964(c) (providing for the recovery of treble damages and attorneys' fees), with 15 U.S.C.A. § 1117 (West 2006) (also providing for the recovery of treble damages and attorneys' fees).

²⁵⁵ See, e.g., *Power Test Petrol. Distribs., Inc. v. Manhattan & Queens Fuel Corp.*, 556 F. Supp. 392, 394 (E.D.N.Y. 1982) (“[T]he doctrine of contributory infringement was developed as a judicial gloss on the infringement provision of the Lanham Act.”).

²⁵⁶ See *Fonsovia, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (citing *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986)).

²⁵⁷ See *Kolsun & Bayer*, *supra* note 20, at 416.

²⁵⁸ See *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (citing *Louis Vuitton, S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)).

cannot recover treble damages or attorneys' fees, but may still recover actual damages.²⁵⁹

Gucci has employed this doctrine to take action against an internet service provider used by a trafficker of jewelry bearing Gucci's counterfeit trademark to advertise its illicit operation,²⁶⁰ and Tiffany recently used it as grounds to file suit against eBay for facilitating auctions of counterfeit jewelry.²⁶¹ Trademark owners achieve the most success under the doctrine, however, when they sue the landlords of the storefronts out of which traffickers sell counterfeit goods.²⁶² Once trademark owners serve landlords with notice of counterfeiting activity on property the landlord owns, the landlord must take "reasonable steps to rid the premises of the illegal activity,"²⁶³ including evicting the counterfeiters,²⁶⁴ or else risk exposing themselves to civil liability for the counterfeiting.²⁶⁵ Trademark owners who sue landlords under a unique facet of New York state law, which holds landlords who knowingly permit tenants to engage in illegal trade or business on their premises jointly and severally liable for the conduct of their tenants,²⁶⁶ enjoy an additional avenue of civil enforcement. New York courts explicitly hold that a landlord's knowledge of his tenants' use of his premises for trademark counterfeiting subjects the landlord to full-scale liability for the criminal conduct of his tenants.²⁶⁷ The doctrine of contributory liability is the most effective weapon trademark holders can employ to combat counterfeiting at both the state and federal levels because it enables them to pursue entities incapable of concealing their assets. These entities must either eradicate counterfeiting on the premises over which they have

²⁵⁹ See *id.* at 1151; 15 U.S.C.A. § 1117 (West 2006).

²⁶⁰ See *Gucci America, Inc. v. Hall & Assoc.*, 135 F. Supp. 2d 409 (S.D.N.Y. 2001).

²⁶¹ See First Amended Complaint, *Tiffany Inc. v. eBay, Inc.*, No. 04 Civ. 4607 (S.D.N.Y. July 14, 2004), 2004 WL 1413904.

²⁶² See *Kolsun & Bayer*, *supra* note 20, at 418.

²⁶³ *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, No. 93 Civ. 6783, slip op. at 1 (S.D.N.Y. Feb. 16, 1996).

²⁶⁴ See *infra* note 269 and accompanying text.

²⁶⁵ See *Kolsun & Bayer*, *supra* note 20, at 413.

²⁶⁶ See N.Y. REAL PROP. LAW § 231 (McKinney 2006).

²⁶⁷ See *1165 Broadway Corp. v. Dayana of N.Y. Sportswear*, 633 N.Y.S.2d 724, 726 (Civ. Ct., N.Y. County 1995).

dominion and control, or else confront the unpleasant prospect of exposing themselves to treble damages liability.

Pursuing third-party enablers of counterfeit goods trafficking under the doctrine of contributory liability may actually be meeting with some success in curtailing the counterfeit goods trade in the United States. In July of 2005, LVMH, after having filed suit in the U.S. District Court for the Southern District of New York against Richard Carroll, the landlord of seven properties on Canal Street out of which tenants engaged in the trafficking of counterfeit Louis Vuitton bags, reached a permanent injunction on consent.²⁶⁸ The injunction required Carroll to post signs in highly visible locations inside and outside his properties warning that the businesses operating on the premises are not authorized Louis Vuitton retailers, and that the purchase of counterfeits may result in legal action.²⁶⁹ The injunction further ordered Carroll move to immediately evict the current tenants at the seven premises, and inform future tenants of the consequences of selling counterfeit goods, which under the terms of the injunction include mandatory eviction if LVMH owns the counterfeit trademarks.²⁷⁰ Finally, the injunction called for a monitor to conduct weekly warrantless searches of the public and private areas of the seven properties for a year, with LVMH and Carroll splitting the costs.²⁷¹ Detractors of this tactic would argue that such lawsuits serve only to drive the counterfeit goods trade quite literally further underground, into clandestine basement bazaars slightly north of Canal Street.²⁷² LVMH, however, appears to find such criticism unpersuasive, for it has subsequently brought two nearly identical suits against additional landlords, the most recent of which implicated twenty

²⁶⁸ See Liza Casabona, *LVMH Wins Judgment Against Landlord*, WOMEN'S WEAR DAILY, July 1, 2005, at 2; Ross Tucker, *LVMH Notches Victory in Counterfeiting Case*, WOMEN'S WEAR DAILY, Apr. 21, 2005, at 14.

²⁶⁹ See Casabona, *supra* note 268; Tucker, *supra* note 268.

²⁷⁰ See Casabona, *supra* note 268; Tucker, *supra* note 268.

²⁷¹ See Casabona, *supra* note 268; Anthony Ramirez, *Chinatown Journal; On Canal St., Ferreting Out the Louis Vuitton Imposters*, N.Y. TIMES, Jan. 29, 2006, § 1, at 27; Tucker, *supra* note 268.

²⁷² See Orla Healy, *Ab Fab Fakes—High Quality Bags in Chinatown Underground*, N.Y. POST, Dec. 1, 2005, at 22 (describing a covert journey, replete with lookouts and handoffs, to a subterranean retailer of high-quality counterfeit handbags located in a basement in northern Chinatown).

premises on Canal Street out of which counterfeit goods are trafficked, and obtained commensurate injunctions in both actions.²⁷³ The terms of the injunctions now apply to as many as 100 street-level retailers.²⁷⁴

VI. CRIMINAL TRADEMARK COUNTERFEITING PROHIBITIONS MUST BE ENFORCED MORE CONSISTENTLY

The signs that LVMH mandates property owners post as a component of compliance with its standard injunction caution in pertinent part: “this retailer is not authorized or licensed to sell Louis Vuitton merchandise. The N.Y.P.D. and Louis Vuitton investigate any sale or purchase of counterfeit merchandise at this location. Counterfeiting is civilly and criminally punishable under federal and state law by up to 10 years of imprisonment and \$2,000,000 in fines.”²⁷⁵ These notices suggest that LVMH is not itself above resorting to chicanery in combating the counterfeit goods trade by attempting to frighten potential purchasers of merchandise bearing counterfeit Louis Vuitton trademarks out of making such acquisitions. The warning is of course on its face literally true, but it is essentially an elaborate piece of sales puffery, for under United States law at both the federal and state levels, retail purchasers of goods bearing counterfeit trademarks—customers of the lowest-level traffickers—are not subject to criminal penalties. A trademark holder such as LVMH could conceivably sue retail purchasers of counterfeit goods bearing their trademarks under the Lanham Act,²⁷⁶ but would never in practice initiate such an action because the attorney assigned to draft the complaint in such a case would earn more money in the one quarter of a billable hour it took to fill in boilerplate than the mark holder could ever hope to recover through the suit. Yet while legal

²⁷³ See Galloni, *supra* note 28; Ramirez, *supra* note 271.

²⁷⁴ See Ramirez, *supra* note 271.

²⁷⁵ Press Release, LVMH, Louis Vuitton Obtains Preliminary Injunction Representing Unprecedented Victory in Battle Against Counterfeiting and Reduction of Criminal Activity on Canal Street (Apr. 19, 2005) (on file with author), *available at* http://www.arentfox.com/press_releases/content659_supplement.pdf (last visited Nov. 14, 2006).

²⁷⁶ 15 U.S.C.A. §§ 1051–1129 (West 2006).

professionals versed in the current state of the law would quickly finger LVMH's notice as an abject scare tactic, it is a tactic that may well realize its intended goal, since most of the individuals who comprise counterfeit goods traffickers' target market of tourists, suburbanites, and young individuals eager to keep pace with fashion trends likely have little or no knowledge of the workings of 18 U.S.C. § 2320 and the New York Penal Law.

Then again, consumer demand for counterfeit luxury merchandise shows no signs of abating despite the fact that some purchasers of counterfeit trademarked goods apparently believe they are buying stolen but authentic merchandise,²⁷⁷ which they presumably understand, at least in an abstract sense, constitutes the crime of receiving stolen property. Perhaps LVMH's disingenuous warning notices may not pack the deterrent punch the company hopes. The misleading phrasing of the warning notices could also be the product of wishful thinking on the part of a company headquartered in France, a nation which has criminalized the purchase of counterfeit products²⁷⁸ and recently taken to slapping Chinese tourists who arrive in the country carrying ersatz luxury goods such as counterfeit Louis Vuitton handbags with heavy fines.²⁷⁹ LVMH would likely be overjoyed, and its fellow luxury goods purveyors would be similarly enthused, if the United States elected to follow France's lead and criminalize the purchase as well as the sale of goods bearing counterfeit trademarks.

Any move by either the federal government or one of the states to criminalize within the United States the act of acquiring as well as vending counterfeit trademarked merchandise, however, would prove an egregious mistake. It is unsurprising that countries such as France and Italy whose national economies are heavily dependant on the luxury goods sector have criminalized the retail purchase of counterfeit trademarked goods,²⁸⁰ since such legislative action is an unabashed boon to the luxury goods industry. For the other sectors of the economy and for society as a

²⁷⁷ See Ramirez, *supra* note 271.

²⁷⁸ See Galloni, *supra* note 28 and accompanying text.

²⁷⁹ See Howard W. French, *Next Wave of Camera-Wielding Tourists Is From China*, N.Y. TIMES, May 17, 2006, at A3.

²⁸⁰ See *supra* notes 28–30 and accompanying text.

whole, however, it is essentially worthless. Luxury items, though they receive the most attention, are not the only type of goods subject to counterfeiting. Counterfeit pharmaceuticals and vehicle parts are both growing problems in the United States.²⁸¹ If an American government entity were to criminalize the purchase of counterfeit trademarked goods, it would have to adopt a carefully-balanced legislative scheme to avert the public relations nightmare of overzealous law enforcement officers arresting, and determined prosecutors convicting, a confused grandmother who purchases counterfeit medicine over the internet, or a father of four who buys counterfeit brake pads at a cut-rate auto supply store because the store advertised them as simply being on sale.²⁸²

Such a statutory scheme would likely involve a “knowingly and intentionally” mens rea requirement under which prosecutors would have to prove that the defendant not only made a purchase of counterfeit goods, but made the purchase knowing that the merchandise was counterfeit.²⁸³ Such a strict mens rea requirement would belie the purpose of such a statute by allowing most defendants to claim ignorance and escape conviction. The only defendant a judge or jury would be likely to convict under such a stringent mens rea requirement is, unsurprisingly, a purchaser of counterfeit luxury goods, who is unlikely to prevail on a defense that she reasonably believed that the Prada bag she bought in Chinatown was real, even though she bought it for less than one-tenth the price of the legitimate article. A statute criminalizing the purchase of counterfeit trademarked goods would thus effectively criminalize only the purchase of counterfeit luxury goods,²⁸⁴ and an industry in which the rainmakers are \$9000 handbags²⁸⁵ does not warrant this quotient of individualized statutory protection.

²⁸¹ See generally Amendolara, *supra* note 57, at 810–12.

²⁸² See *id.*

²⁸³ See *supra* text accompanying note 193.

²⁸⁴ Such a statute would also effectively criminalize the purchase of pirated music and filmed entertainment, but these products are distinguishable on the ground that they are subject to copyright rather than trademark protection.

²⁸⁵ See Tracie Rozhon, *Even if Just a Bauble, Luxury Counts for Holidays*, N.Y. TIMES, Dec. 12, 2004, § 1, at C4 (noting the list price of the Hermes Birkin bag as \$9000).

To be sure, illegal commerce in trademarked counterfeit goods is not a victimless crime. Legitimate manufacturers, wholesalers and retailers across all spectrums of the national economy lose hundreds of billions of dollars each year at the hands of trademark counterfeiters.²⁸⁶ The illicit industry of trafficking in counterfeit trademarks, however, does not merely exact pecuniary losses from wealthy corporations. It also inflicts a very human, and occasionally deadly, toll on the individuals on both sides of the law who wage the daily battle over counterfeits in the streets. To understand how ruinous the counterfeit goods trade can be for both law enforcement officers and innocent bystanders, one need look no further than former police officer Bryan Conroy's mortal shooting of Ousmane Zongo, a West African immigrant, during a N.Y.P.D. raid on a counterfeit compact-disc trafficking operation in Chelsea and subsequent conviction for criminally negligent homicide;²⁸⁷ Zongo had nothing to do with the counterfeiting ring.²⁸⁸ The illegal industry can also be deadly for traffickers—a suspected counterfeiter fell to his death from a ninth-story window in Koreatown while attempting to flee from police officers executing a search warrant for trademark counterfeiting activity²⁸⁹—and, at least tangentially, for their pursuers: a N.Y.P.D. sergeant attached to an elite squad and said to be in excellent physical condition collapsed and died after giving chase to a vendor of counterfeit Oakley sunglasses in SoHo.²⁹⁰ Criminalizing the purchase of counterfeit goods, however, would not have prevented these deaths, and is as unlikely to prevent future deaths as it is to stem the unceasing tide of counterfeit goods.

Admittedly, the American statutes in force at both the federal and New York state levels that criminalize trafficking in goods bearing counterfeit trademarks are not perfect. Congress should

²⁸⁶ See *supra* notes 6–8 and accompanying text.

²⁸⁷ N.Y. PENAL LAW § 125.10 (McKinney 2006). See Amanda Hartocollis, *Officer Guilty of Negligence in '03 Killing*, N.Y. TIMES, Oct. 22, 2005, at A1.

²⁸⁸ See Sabrina Tavernise & William K. Rashbaum, *Charges Are Seen In Police Gunfire*, N.Y. TIMES, June 10, 2004, at A1.

²⁸⁹ *Man Falls to Death from Midtown Building*, N.Y. TIMES, May 7, 2003, at B4.

²⁹⁰ Michael Wilson, *Police Officer Dies After Chasing Sidewalk Vendor in SoHo*, N.Y. TIMES, Feb. 1, 2004, § 1, at 31.

amend the federal statute, 18 U.S.C. § 2320, to stratify the crime of trafficking in counterfeit goods or services into multiple offense levels, so that street-level vendors of counterfeit trademarked goods, who are often caught between law enforcement officers seeking to curb counterfeiting and organized crime groups pressuring them to sell ersatz merchandise,²⁹¹ do not face the same federal felony charges prosecutors would levy against the leader of the organized crime syndicate forcing them to sell the counterfeit goods. Conversely, the New York State Legislature should amend the Penal Law so that it lists felony-level trademark counterfeiting offenses²⁹² among the designated “criminal acts” that can serve as predicate offenses under the state’s enterprise corruption²⁹³ and money laundering statutes.²⁹⁴ The Legislature should also follow the lead of Congress and amend the seizure and destruction of goods provision of the criminal trademark counterfeiting statute²⁹⁵ to call for mandatory, rather than optional, seizure of any and all goods “manufactured, sold, offered for sale, distributed or produced in violation”²⁹⁶ of the state’s prohibitions on trademark counterfeiting, and further amend the provision by expanding to include mandatory seizure of any and all instrumentalities used to violate the trademark counterfeiting prohibitions. Even without these relatively minor amendments, however, the criminal statutes proscribing trafficking in counterfeit trademarked goods currently in place at the both the federal and New York state levels, amount to formidable anti-counterfeiting weapons if prosecutors and law enforcement authorities apply them dynamically.

The illicit counterfeit goods industry in the United States continues to proliferate. The economic losses attributable to the counterfeit goods trade in the United States have increased \$50 billion since 2001 alone.²⁹⁷ The amount of money New York

²⁹¹ See Adam Fifield, *The Knockoff Squad*, N.Y. TIMES, June 23, 2002, § 14, at 1.

²⁹² N.Y. PENAL LAW §§ 165.72–165.73 (McKinney 2006).

²⁹³ Organized Crime Control Act, N.Y. PENAL LAW §§ 460.00–460.80 (McKinney 2006).

²⁹⁴ N.Y. PENAL LAW §§ 470.00–470.25 (McKinney 2006).

²⁹⁵ N.Y. PENAL LAW § 165.74 (McKinney 2006).

²⁹⁶ *Id.*

²⁹⁷ Compare Flynn, *supra* note 6 (noting that the counterfeit goods trade costs American businesses \$250 million each year), with Julian E. Barnes, *Fake Goods Are Flowing*

City loses in uncollected tax revenue each year at the hands of commercial counterfeiters has increased by over \$600 million since 1997.²⁹⁸ Despite the international breadth, massive pecuniary scope and deadly effects of the illegal counterfeit goods trade, in addition to the ominous presence of organized crime syndicates and terrorist groups in the illicit industry, detractors erroneously maintain that trademark counterfeiting remains a victimless crime. Some go so far as to assert that counterfeiting may not even harm the owners of the trademarks that criminals counterfeit.²⁹⁹ Others are less vocal, but their actions speak volumes. In August of 2005, this author witnessed New York County Assistant District Attorneys refuse to file felony charges against an offender whom the police discovered in a raid amidst a sea of counterfeit luxury goods, items whose retail value far exceeded the \$1000 statutory threshold for felony-level culpability,³⁰⁰ in direct contravention of the repeated and insistent requests of the arresting N.Y.P.D. officers. As this observation anecdotally demonstrates, it is not a lack of statutory potency that presents a hindrance to current criminal anti-counterfeiting prosecutions.

New York's trademark counterfeiting statutes, and especially their recently amended and fortified federal counterpart, 18 U.S.C. § 2320, provide prosecutors with strong and versatile enforcement implements. The new and long-overdue mandatory seizure provisions of § 2320 in particular provide a certainty of punishment upon conviction not previously present in the realm of criminal trademark counterfeiting, and thus present a unique opportunity for federal prosecutors to make real inroads against

Under the Radar, N.Y. TIMES, Oct. 14, 2001, § 3, at 4 (reporting that the American economy loses \$200 billion to counterfeit goods annually).

²⁹⁸ Compare Press Release, *supra* note 9 (noting that New York City loses \$1.03 billion in tax revenue at the hands of the counterfeit goods trade), with Peter F. Vallone, Speaker, N.Y. City Council, Address to the Counterfeiting Press Conference (Dec. 7, 1997) (noting that New York City loses over \$400 million per year in tax revenues from the counterfeit goods industry).

²⁹⁹ See, e.g., Stewart Whitwell, *Brand Papers—Piracy: Faking It Can Be Good*, BRAND STRATEGY, May 8, 2006, at 30, available at 2006 WL 7914348 (arguing that being targeted by counterfeiters can be beneficial to a brand's image and to the brand owner's business).

³⁰⁰ See N.Y. PENAL LAW § 165.72 (McKinney 2006).

counterfeiters. To date, however, criminal trademark counterfeiting prosecutions at both the state and federal level systematically lack the zeal, ingenuity and unrelenting determination of their civil counterparts. As long as the individuals and agencies tasked with prosecuting traffickers of counterfeit goods persist in their lack of resolve to act with the diligence, expedience, and evenhandedness required to rein in such a pervasive criminal activity, the tide of the illicit trademark counterfeiting trade will continue to flow unabated.