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## Panel III: The New Campaign Against Counterfeiting and Piracy.

Barbara Kolsun  
*Kate Spade*

Heather McDonald  
*Gibney, Anthony & Flaherty*

Darren Pogoda  
*International AntiCounterfeiting Coalition*

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## PANEL III: The New Campaign Against Counterfeiting and Piracy

Moderator: Bernard Korman<sup>\*</sup>

Panelists: Barbara Kolsun<sup>†</sup>  
Heather McDonald<sup>‡</sup>  
Darren Pogoda<sup>§</sup>

MR. SCHAEFFER:<sup>||</sup> Good afternoon, and welcome back to our final panel, *The New Campaign Against Counterfeiting and Piracy*. Before we get started, I'd like to thank the staff and the editorial board for all of the hard work that they have put into the Symposium this year, and especially Jamie Rodriguez, who did a tremendous job.

For non-*Journal* members here today, my name is Seth Schaeffer. I'm the Editor-in-Chief of the *Intellectual Property, Media & Entertainment Law Journal* at Fordham, and I would like to thank you all for coming. Without you, obviously it wouldn't be possible. We look forward to this final panel.

With that, I'll introduce Bernard Korman, who is an intellectual property consultant who, as many of you know, was the General Counsel of American Society of Composers, Authors & Publishers ("ASCAP"). He is also a past president and current Honorary Trustee of the Copyright Society of America, and has served as the Chairman of the Copyright Division of the ABA. Mr. Korman has also lectured here at Fordham as well as Columbia, Harvard, New York University, Stanford, and Yale.

MR. KORMAN: Thank you very much.

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\* Former General Counsel, American Society of Composers, Authors & Publishers.

† General Counsel, Kate Spade.

‡ Partner, Gibney, Anthony & Flaherty, LLP.

§ Legal Counsel, International AntiCounterfeiting Coalition.

|| Editor-in-Chief, *Fordham Intellectual Property, Media & Entertainment Law Journal*, Vol. XIV, Fordham University School of Law. J.D. Candidate, Fordham University School of Law, 2004; B.A., Colgate University, 1998.

Before we begin, I'd like a show of hands. How many of you think you know all there is to know about piracy and counterfeiting? How many think you know a little about piracy and counterfeiting?

MS. KOLSUN: You know a little about piracy and counterfeiting.

MR. KORMAN: The biographies of our speakers are in your materials, so I am not going to summarize them. If they want to say a little bit about themselves as they begin, that is fine.

Let me call first on Darren Pogoda, who will speak for ten minutes or as long a period of time as he deems appropriate.

MS. MCDONALD: Or as long as we let him.

MR. POGODA: Good morning, everyone. Thank you to the Fordham Law School, Jamie Rodriguez, and the rest of the staff on the *Journal* for inviting me and putting this together.

My name is Darren Pogoda. I'm with a trade organization called the International AntiCounterfeiting Coalition ("IACC"). We are a trade organization based in Washington, D.C.<sup>1</sup> We have about 140 members comprised of rightholders, corporations that own the trademarks and the copyrights, law firms, private investigators, and product security companies.<sup>2</sup>

We were formed in 1978<sup>3</sup> with the purpose of lobbying for passage of a criminal trademark counterfeiting statute, which was achieved.<sup>4</sup> In 1984, that statute was enacted—it's 18 U.S.C. § 2320.

Over the years, as the problem of intellectual property theft has grown, our organization has grown, too. When we started off, our first members mainly were from the apparel and luxury goods industry. Today our membership comes from the apparel industry, but also automotive, pharmaceutical, software, tobacco, cosmetics,

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<sup>1</sup> See Int'l AntiCounterfeiting Coalition [IACC], at [www.iacc.org](http://www.iacc.org) (last visited Apr. 1, 2004).

<sup>2</sup> See IACC, *Membership Form*, at <http://www.iacc.org/join/join.cfm> (last visited Apr. 1, 2004).

<sup>3</sup> See Anne-Marie Schiro, *Keeping Jeans Honest*, N.Y. TIMES, Apr. 4, 1981, § 1, at 21.

<sup>4</sup> See Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, 98 Stat. 2178 (1984) (codified as amended at 18 U.S.C. § 2320 (2004)).

and telecommunications industries—you name it.<sup>5</sup> If there is an industry out there, most likely it has a problem in which their goods are getting knocked off.

Just to give you an idea of how large a problem it is, there was a study done by a group called the International Chamber of Commerce in the late-1990s,<sup>6</sup> and they estimated that five to seven percent of global trade was in fake goods, which would amount to roughly about \$450 billion a year in the fake-goods industry, if you can call it that.<sup>7</sup>

Just to put that in perspective, if the counterfeiters were to go out and form their own country and sell nothing but fake products, that amount right there, \$450 billion, would make them one of the largest economies in the world, behind the United States, Germany, and the United Kingdom.<sup>8</sup> To put it in perspective even more, bank robberies, by contrast, in the United States amount to about \$50 million a year,<sup>9</sup> yet they seem to garner a lot more interest among the public, a lot more outrage maybe, and a lot more law enforcement resources.

So, the problem has dramatically increased over the past twenty years. Both Barbara and Heather can attest to that, and they will. It has increased because of access to better technology, access to computers and printers that can make perfect labels, and

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<sup>5</sup> IACC member companies' total revenue exceed \$650 billion each year. See Press Release, IACC, Fake Goods Impacting International Security (June 5, 2003), available at <http://www.iacc.org> (last visited Apr. 1, 2004).

<sup>6</sup> A 1994 study by the International Chamber of Commerce estimated the cost of unpaid taxes on counterfeit goods to be \$350 million. See Michael Wilson, 2 *Chinatown Stores Raided in Counterfeit-Goods Sweep*, N.Y. TIMES, Dec. 3, 2003, at B2.

<sup>7</sup> See *id.*

<sup>8</sup> See CIA, World Factbook, *Rank Order – GDP*, at <http://www.cia.gov/cia/publications/factbook/rankorder/2001rank.html> (last updated Dec. 18, 2003).

<sup>9</sup> In 2001, the average total loss per incident was \$4,587, and there were 8,496 bank robberies. See ROSEMARY J. ERICKSON & KRISTI M. BALZER, SUMMARY AND INTERPRETATION OF BANK CRIME STATISTICS, 2000 FEDERAL BUREAU OF INVESTIGATION (2003), available at <http://www.athenaresearch.com/research.shtml> (last visited Apr. 4, 2004). According to the Federal Bureau of Investigation (“FBI”), bank robberies amounted to \$70 million in losses during 2002. See FBI, CRIME IN THE UNITED STATES § 5 (2002), available at [http://www.fbi.gov/ucr/cius\\_02/html/web/specialreport/05-SR-bankrobbery.html](http://www.fbi.gov/ucr/cius_02/html/web/specialreport/05-SR-bankrobbery.html) (last visited Apr. 1, 2004).

access to technology that can allow people to distribute the products a lot quicker.

I'll give a few more concrete examples of how large the problem can be—and all three of them are from right here in New York. In May 2001, there was a seizure of \$125 million in fake goods from a house that contained secret tunnels, vaults, and trap doors, where they hid some of the more valuable fake goods.<sup>10</sup>

In July 2002, there was a seizure from a residential home of 5,000 fake Rolexes and Montblanc pens as well as a million dollars in cold, hard cash.<sup>11</sup> The prosecutor stated at the time that they were using the sale of the fake goods to launder money from drug sales.<sup>12</sup>

More recently, in February 2003, six men were charged with importing thirty-five million fake cigarettes into the United States over a year-and-a-half period into ports in New York and New Jersey.<sup>13</sup> They would hide them in kitchen pots and then sell the cigarettes through a tax-free business located in upstate New York on an Indian reservation.<sup>14</sup> In addition to the fake cigarettes, two of those six men were also charged with importing counterfeit batteries.<sup>15</sup>

These are just a few of the examples of how big the problem is. It is not just the people on the street corners or the street vendors. It is organized, sophisticated criminal activity on a truly global scale.<sup>16</sup>

MS. KOLSUN: Darren, let me just add one thing. The U.S. government recently hired a public relations agency to publicize

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<sup>10</sup> See Adam Fifield, *The Knockoff Squad*, N.Y. TIMES, June 23, 2003, at A1.

<sup>11</sup> See Scott Shifrel, *3 Charged in Money Laundering*, N.Y. DAILY NEWS, July 11, 2002, at 4.

<sup>12</sup> See *id.*

<sup>13</sup> See William Glaberston, *6 Are Charged with Selling Millions of Counterfeit Marlboros*, N.Y. TIMES, Feb. 21, 2003, at B3; John Marzulli, *Fake Marlboro Men Busted in Smuggling Ring*, N.Y. DAILY NEWS, Feb. 21, 2003, at 37.

<sup>14</sup> See Glaberston, *supra* note 13, at B3; see also Marzulli, *supra* note 13, at 37.

<sup>15</sup> See Glaberston, *supra* note 13, at B3; see also Marzulli, *supra* note 13, at 37.

<sup>16</sup> See, e.g., James Sherwood, *Who Are the Real Fashion Victims?*, INDEPENDENT (London), Oct. 13, 2003, Features, at 4 (noting that “[c]ounterfeiting and piracy is a global black economy”).

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the fact that we were printing a new \$20 bill.<sup>17</sup> I don't know if any of you saw the *CBS News Sunday Morning* piece,<sup>18</sup> but they actually showed the "zillions" of dollars in counterfeit \$20 bills available.<sup>19</sup> Of course, the irony is that after all this press, there was a new counterfeit \$20 bill two weeks later.<sup>20</sup>

MR. POGODA: Just one more quick point before I turn it over. In addition to just the sheer scope and size of the problem, and the amount it has increased, this past year there have been two hearings before the U.S. Congress. The first one was in March and it was on the links between international piracy and international crime.<sup>21</sup>

The second one was this past summer in July, before the House Committee on International Relations, and it was on links between the sale of counterfeit goods and terrorist organizations.<sup>22</sup> The President of the IACC testified at that one.<sup>23</sup> That's not me—I'm just an attorney there. Also, the Secretary General of Interpol<sup>24</sup>

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<sup>17</sup> See Betsy Streisand, *Need Change for a \$20 Bill? Call Hollywood*, N.Y. TIMES, Sept. 28, 2003, § 3, at 4.

<sup>18</sup> CBS News correspondent Joie Chen examined the counterfeiting trades in cash, checks, identity theft, as well as in handbags during the October 12, 2003 broadcast of *CBS News Sunday Morning*. See *CBS News Sunday Morning: Faking It: Counterfeiting Everything From Money to Fashions a Multibillion-Dollar Business Worldwide* (CBS television broadcast, Oct. 12, 2003) (on file with *Fordham Intellectual Property, Media & Entertainment Law Journal*).

<sup>19</sup> See *id.*

<sup>20</sup> Counterfeit \$20 bills appeared less than a month after being released into circulation. See Gordon T. Anderson, *Counterfeit New \$20s Debut*, CNNmoney, at [http://money.cnn.com/2003/10/29/pf/debt/counterfeit\\_20\\_found](http://money.cnn.com/2003/10/29/pf/debt/counterfeit_20_found) (Oct. 29, 2003).

<sup>21</sup> See *International Copyright Piracy: A Growing Problem With Links to Organized Crime and Terrorism: Hearing Before the Subcomm. on Cts., the Internet, and Intell. Prop. of the House Comm. on the Judiciary*, 108th Cong. (2003), available at [http://commdocs.house.gov/committees/judiciary/hju85643.000/hju85643\\_0f.htm](http://commdocs.house.gov/committees/judiciary/hju85643.000/hju85643_0f.htm) (last visited Apr. 1, 2004).

<sup>22</sup> *Intellectual Property Crimes: Are Proceeds From Counterfeited Goods Funding Terrorism?: Hearing Before the House Comm. on Int'l Relations*, 108th Cong. (2003), available at [http://commdocs.house.gov/committees/intlrel/hfa88392.000/hfa88392\\_0f.htm](http://commdocs.house.gov/committees/intlrel/hfa88392.000/hfa88392_0f.htm) (last visited Apr. 1, 2004).

<sup>23</sup> Timothy P. Trainer is the current president of the IACC. *Id.*; see also Nancy Jones-Bonbrest, *Holograms Put Crimp on Counterfeiters; Parkton Firm Promotes and Sells Layered Technology to Help Companies Protect Their Brands*, BALTIMORESUN.COM (Mar. 8, 2004) (available on LEXIS, News Library).

<sup>24</sup> The International Crime Police Organisation ("Interpol") seeks "[t]o be the world's pre-eminent police organisation in support of all organisations, authorities and services

testified at that hearing as well.<sup>25</sup> That was the first time Interpol had ever testified before the U.S. Congress.<sup>26</sup>

So, that's a little bit about the problem. I think Heather is going to take you through the substantive law on the issue. Just let me say upfront that if you have any questions for any of the panelists anywhere along the line, please just stand up and raise your hand. There is no need to wait until the end. We'd rather talk with you than at you.

MS. MCDONALD: Thanks, Darren.

I'm Heather McDonald. I'm a partner at the law firm of Gibney, Anthony & Flaherty LLP here in New York. My firm is the general counsel to the Rolex watch company. I went on my first seizure of counterfeit Rolex watches in 1986, so this is a problem that we have been fighting for a long time.

As for the basic tools for enforcement, companies that are the victim of counterfeiters can rely on the criminal laws and the civil laws, which operate in parallel universes in this area.

Regarding criminal laws, there is a federal law that Darren talked about, which was enacted originally in 1984.<sup>27</sup> It says that if you traffic in counterfeit goods, you can go to jail for up to ten years now.<sup>28</sup> It has been amended since its original version. And damages can be awarded in civil cases for up to millions of dollars.<sup>29</sup> Under the criminal laws, you can go to jail for up to ten years and you have big fines payable to the government.<sup>30</sup> There

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whose mission is preventing, detecting, and suppressing crime." See Interpol, at <http://www.interpol.int/Public/Icpo/default.asp> (last visited Apr. 1, 2004).

<sup>25</sup> Ronald K. Noble is the current secretary general of Interpol. See Interpol, *72nd Interpol General Assembly*, at <http://www.interpol.int/Public/ICPO/speeches/SG-20030929.asp> (Sept. 29, 2003).

<sup>26</sup> It was the first time a secretary general of Interpol had testified before Congress. See *supra* note 22.

<sup>27</sup> See Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, 98 Stat. 2178 (1984) (codified as amended at 18 U.S.C. § 2320 (2004)).

<sup>28</sup> 18 U.S.C. § 2320.

<sup>29</sup> See, e.g., *Nintendo of Am., Inc. v. NTDEC*, 822 F. Supp. 1462, 1467 (D. Ariz. 1993) (holding that damages of more than \$24 million was appropriate).

<sup>30</sup> 18 U.S.C. § 2320(a).

are also state criminal laws.<sup>31</sup> Right now there are, I think, approximately thirty-five states that have their own criminal laws, making the sale of counterfeit goods a criminal action under the state law.<sup>32</sup> This is particularly valuable because the federal government doesn't typically get involved in these criminal investigations unless there are huge, huge organized outfits that are selling counterfeit goods.<sup>33</sup> So, if you can go to the state governments, if you can go to the local police departments, or if there is a law under which you can prosecute, it will give you a tremendous, additional remedy.

The state laws vary in terms of what their penalties are. New York's trademark counterfeiting statute is a three-tiered statute, and the level of the crime is geared toward the retail value of the goods that people are selling.<sup>34</sup> If the aggregate retail value of the counterfeit goods that they are selling is less than \$1,000, it's an A misdemeanor,<sup>35</sup> if it is more than \$1,000, it's an E felony,<sup>36</sup> and if it's more than \$100,000, it's a C felony.<sup>37</sup> Now, for a nonviolent C felony one can get sentenced for up to three years in jail;<sup>38</sup> for a nonviolent E felony the sentence can be up to a year,<sup>39</sup> and for a

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<sup>31</sup> For a list of state statutes relevant to counterfeiting, see Craig O. Correll, *Using Criminal Sanctions to Combat Trademark Counterfeiting*, 14 AIPLA Q.J. 278, 289-93 (1986).

<sup>32</sup> See *id.*

<sup>33</sup> In 1996, Congress, recognizing the entrance of organized crime elements into counterfeiting, amended the Racketeer Influenced and Corrupt Organizations Act ("RICO") to include illegal counterfeiting. Michael Coblenz, *Intellectual Property Crimes*, 9 ALB. L.J. SCI. & TECH. 235, 298-99 (1999).

<sup>34</sup> See N.Y. PENAL LAW §§ 165.71-.73 (2004).

<sup>35</sup> See *id.* § 165.71.

<sup>36</sup> See *id.* § 165.72.

<sup>37</sup> See *id.* § 165.73.

<sup>38</sup> See N.Y. PENAL LAW § 70.00[3][b] ("Where the sentence is for a class B felony offense specified in subdivision two of section 220.44, the minimum period must be fixed by the court at one-third of the maximum term imposed and must be specified in the sentence. Where the sentence is for any other felony, the minimum period shall be fixed by the court and specified in the sentence and shall be not less than one year nor more than one-third of the maximum term imposed.").

<sup>39</sup> See *id.* § 70.00[4] ("When a person, other than a second or persistent felony offender, is sentenced for a class D or class E felony, or to a class C felony specified in article two hundred twenty or article two hundred twenty-one, and the court, having regard to the nature and circumstances of the crime and to the history and character of the defendant, is of the opinion that a sentence of imprisonment is necessary but that it would be unduly



nonviolent misdemeanor it's pretty much always just a slap on the wrist and probation, but it's a criminal conviction nonetheless.<sup>40</sup> Frequently that is enough to scare people off, if they think they are going to be criminally prosecuted.

Other states have very similar laws. Some of them only have laws that rise to the level of a misdemeanor.<sup>41</sup> But it is another weapon in the arsenal to fight the counterfeiters.

Then there are the civil laws. The federal civil law that allows you to go after counterfeiters is a great remedy because it provides that as long as you can prove a pretty significant laundry list of things to a federal judge, you can proceed *ex parte*. This is almost unheard of in civil litigation these days. Usually, civil litigation is based on notice—a party doesn't get to do anything without everybody else knowing exactly what is coming.<sup>42</sup> With *ex parte*, you can tell a judge that you have found somebody who is selling counterfeit goods and avoid the notice requirement.<sup>43</sup>

You have to prove that the goods are in fact counterfeit. You have to prove where they are going to be; you have to prove that it is the defendant who has them.<sup>44</sup> I mean, you have to prove all the things you would have to prove to get a temporary restraining

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harsh to impose an indeterminate or determinate sentence, the court may impose a definite sentence of imprisonment and fix a term of one year or less.”).

<sup>40</sup> See *id.* § 70.15.

<sup>41</sup> See, e.g., S.C. CODE ANN. § 39-15-1190 (Law. Co-op. 2003) (“Whoever intentionally traffics or attempts to traffic in goods or services and knowingly uses or should have known a counterfeit mark on or in connection with such goods or services shall be deemed guilty of a misdemeanor, if an individual, be fined not more than five thousand dollars or imprisoned not more than one year, or both, and, if a person other than an individual, be fined not more than twenty thousand dollars.”).

<sup>42</sup> See, e.g., *Mullane v. Cent. Hanover Bank and Trust Co.*, 399 U.S. 306, 314 (1950) (noting that, in the context of civil litigation, “[a]n elementary and fundamental requirement of due process in any proceeding which is to be accorded finality is notice reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action and afford them an opportunity to present their objections”) (citations omitted).

<sup>43</sup> See 15 U.S.C. § 1116(d)(1)(A) (2003) (indicating that “the court may, upon *ex parte* application, grant an order . . . providing for the seizure of goods and counterfeit marks . . . and the means of making such marks, and records documenting the manufacture, sale, or receipt of things involved in such violation”).

<sup>44</sup> Certain conditions must be fulfilled before a court will grant an *ex parte* application. See *id.* § 1116(d)(4)(B).

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order (“TRO”), plus some.<sup>45</sup> You have to notify the Office of the U.S. Attorney General, in case they want to prosecute.<sup>46</sup>

When you file, it’s filed under seal.<sup>47</sup> That is designed to protect the defendant in case you are wrong. If you sue somebody for selling counterfeit goods and file it in the Southern District of New York, this information will go into the press box and will appear on the front page of the *New York Post* the next day. And if you are wrong, you will have significantly damaged somebody’s business reputation.<sup>48</sup> So, it is filed under seal, ironically, to protect the defendants, but it is actually a huge protection for the plaintiffs as well, because if counterfeiters have any idea you are coming, by the time you get to their location there is not going to be anything there except some sweet little old lady selling yo-yos, and there won’t be any records.

MS. KOLSUN: You also have to post a bond.<sup>49</sup> That similarly protects the counterfeiter in case you are wrong.

MS. MCDONALD: If you get to go in *ex parte*, if you prove all of these things, in addition to getting a court to enter a TRO, you get the incredible remedy of a seizure order,<sup>50</sup> which is also a very, very dramatic remedy. Once again, it is all *ex parte*.

It allows you to go with the U.S. marshals or other law enforcement officers to the premises of the counterfeiter,<sup>51</sup> which can be a business location or somebody’s home. You basically get to knock on the door and say, “Hi, I’m here with these seventeen U.S. marshals, and we’re going to look through your house and take all of your counterfeit goods and all of your business records related to that. You can come to court next Thursday and discuss this with the judge because that’s what he decided is the return date.”<sup>52</sup> This is a tremendous remedy.

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<sup>45</sup> *See id.*

<sup>46</sup> *See id.* § 1116(d)(8).

<sup>47</sup> *See id.*

<sup>48</sup> *See id.*

<sup>49</sup> *See id.* § 1116(d)(4)(A).

<sup>50</sup> *See id.* § 1116(d)(5).

<sup>51</sup> *See id.* § 1116(d)(5)(B).

<sup>52</sup> *See id.* § 1116(d)(10)(A) (indicating that “[t]he court shall hold a hearing, unless waived by all the parties, on the date set by the court in the order of seizure”); *see*

When you can't get law enforcement interested in going after one of Barbara's favorite targets, you can go after one of these women who throws purse parties on the weekends and sells counterfeit handbags to all of the local ladies in the area. It is quite dramatic when you show up with a seizure order during the course of one of these purse parties, and all of these women are mortified and cry, "Oh my God, I thought it was real." Uh huh. And you get to take all of the stuff. It's a very dramatic remedy.

After you have seized the goods—obviously to hold them for safekeeping so that the defendants can't destroy them—you have to prove your case just like you do in any other litigation.<sup>53</sup> You can get damages of millions of dollars.<sup>54</sup>

It is very hard to prove what your losses are in a lot of instances because you can't necessarily make the argument that if this person sold 10,000 fake Rolex watches, and that if all of those watches were unavailable, then the same 10,000 people who bought the counterfeits would have gone out and bought the genuine ones. You can't argue that because a counterfeit might sell for \$50 and a genuine might sell for \$30,000.<sup>55</sup> So, you cannot make the argument that it is a one-for-one lost sale.

The legislature has recognized this, and now you can seek statutory damages of between \$500 and \$100,000 per infringement.<sup>56</sup> It is designed specifically for cases where there are no records and actual damage cannot be proved. So, that is a great remedy available as well. That's just the framework of the laws under which we operate.

MS. KOLSUN: Why don't you just add something about contributory and vicarious infringement?<sup>57</sup>

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*generally* Noelle Crombie, *Sweep Nets Illegal Cigarettes*, OREGONIAN, June 11, 2003, at C1 (describing a raid in Oregon to seize counterfeit cigarettes and that involved federal officers).

<sup>53</sup> See *id.* § 1116(d)(10)(A).

<sup>54</sup> See *generally id.* § 1117.

<sup>55</sup> See Nicole Christian, *On the Beat With the Purse Police*, LADIES' HOME J., Sept. 2003, at 84.

<sup>56</sup> 15 U.S.C. § 1117(c)(1).

<sup>57</sup> "[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a "contributory" infringer." *Fonovisa Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996)

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MS. MCDONALD: Yes, that's a good one. Under the trademark law—and under the copyright law, but we've found it more useful under the trademark law—there is the concept of contributory liability.<sup>58</sup> This has been very, very useful with regard to flea market owner-operators and mall operators because you can notify them that there is illegal activity going on, and if they fail to take any action to stop this, then they can be held liable for the illegal actions that are taking place on their premises.<sup>59</sup> A variety of circuit courts have decided this in a variety of cases.<sup>60</sup>

MR. KORMAN: Heather, has that actually happened?

MS. MCDONALD: Yes, it actually has happened in a couple of cases.

MR. KORMAN: A couple of flea markets?

MS. MCDONALD: Flea markets, absolutely. I don't think there has been a litigation with a mall operator.

MS. KOLSUN: No, but there are some very good cases, including the *Fonovisa Inc. v. Cherry Auction, Inc.* case<sup>61</sup> and the *Polo Ralph Lauren Corp. v. Chinatown Gift Shop* case,<sup>62</sup> cases against the landlords in Chinatown. We use that case law against landlords in more formal settings.

For example, we're actually negotiating leases in malls. We're going to be opening Kate Spade stores in malls in various parts of the country. As business lawyers know, many malls are owned by

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(quoting *Gershwin Pub. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)). Vicarious liability may result if one “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.” *Id.* at 262 (quoting *Gershwin Pub. Corp.*, 443 F.2d at 1162).

<sup>58</sup> See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995) (noting that one faces liability for failing “to take reasonable precautions against the occurrence of [a] third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated”).

<sup>59</sup> See, e.g., *Fonovisa*, 76 F.3d at 259; *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.3d 259 (7th Cir. 1992); *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648 (S.D.N.Y. 1994).

<sup>60</sup> See, e.g., *Fonovisa*, 76 F.3d at 259 (swap meet); *Hard Rock Café*, 955 F.3d 259 (flea market); *Polo Ralph Lauren Corp.*, 855 F. Supp. 648 (landlord of vendor).

<sup>61</sup> See *Fonovisa*, 76 F.3d at 259.

<sup>62</sup> See *Polo Ralph Lauren*, 855 F. Supp. at 648.

small numbers, so there are Simon malls,<sup>63</sup> Taubman malls,<sup>64</sup> and a small number of companies that own a great deal of real estate.

We have had a tremendous problem with those malls that also lease space to little kiosks in the middle of the malls.<sup>65</sup> If you've ever walked through a mall, you have seen those little kiosks, which were meant to recapture some of that space for purposes of collecting rent, but also were originally supposed to be for selling crafts and things like that.<sup>66</sup> They have become a huge source of counterfeit goods.<sup>67</sup>

There are at least a hundred malls that I am dealing with now where there is a store—a Neiman Marcus or a Nordstrom—that sells authentic Kate Spade merchandise and also a kiosk that sells counterfeit merchandise in the same mall. In those cases, we have dealt directly with the malls.

We have a very good body of case law on contributory infringement.<sup>68</sup> Obviously, it is based on knowledge. Once you put the mall or the landlord on notice that there is a problem, the landlord's failure to do anything is grounds for finding a landlord liable for contributory infringement.<sup>69</sup>

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<sup>63</sup> Simon Property Group, Inc., headquartered in Indianapolis, Indiana, is a real estate investment trust engaged in the ownership and management of income-producing properties, primarily regional malls and community shopping centers. See Simon.com, *About Simon*, at [http://www.simon.com/about\\_simon](http://www.simon.com/about_simon) (last visited Apr. 1, 2004).

<sup>64</sup> See Taubman Online, *About Taubman*, at <http://www.taubman.com/about/about.asp> (last visited Apr. 1, 2004).

<sup>65</sup> See, e.g., Nichole M. Christian, *A Pit Bull Who Lunges at Brand Counterfeiters*, N.Y. TIMES, Nov. 13, 2002, at B2 (noting that Simon Properties Group, Inc. agreed to help Kolsun crack down on the sale of counterfeit goods at the mall kiosks of the 140 upscale nationwide shopping malls); Recording Indus. Ass'n of Am. [RIAA], Press Room, *Music Pirates Busted Nationwide*, at <http://www.riaa.com/news/newsletter/press2001/030801.asp> (Mar. 8, 2001) (discussing a seizure of pirate CDs from an Illinois shopping mall); Nassau County Office of Consumer Affairs, *D.A. Dillon Announces Arrests in Sale of Fake Designer Merchandise*, at <http://www.co.nassau.ny.us/consumer/pr1119-03.html> (Nov. 19, 2003) (describing kiosk sales at the Source mall in Westbury, New York).

<sup>66</sup> See generally CBL, *The History of Pushcarts . . . the Story of CBL*, at <http://www.cblpushcarts.com/history/history.html> (last visited Apr. 1, 2004) (emphasizing pushcarts and kiosks as an efficient way to recapture vacant space).

<sup>67</sup> See, e.g., Christian, *supra* note 65, at B2.

<sup>68</sup> See, e.g., *Fonovisa*, 76 F.3d at 259; *Hard Rock Café*, 955 F.3d at 259; *Polo Ralph Lauren*, 855 F. Supp. at 648.

<sup>69</sup> See N.Y. REAL PROP. LAW § 231(2) (2004) ("The owner of real property, knowingly leasing or giving possession of the same to be used or occupied, wholly or partly, for any

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It is not just flea markets. It's stores, it's all sorts of places. You have to think of it like the landlord who rents to drug dealers. It's any location. It could even be a home.

MR. KORMAN: How many judgments has Kate Spade obtained?

MS. KOLSUN: We never have had to go that far because we have been very lucky. I'll talk a little bit about my approach and how to run an anti-counterfeiting program on \$200,000 and basically no staff.

MS. MCDONALD: There are two things that I want to elaborate on. In New York, which is the only state that happens to have this law, there is a real property law that says that the landlord can be held liable for the illegal acts of the tenant committed on the premises if he or she has knowledge that these illegal actions are taking place and fails to appropriately respond.<sup>70</sup> This is a great civil tool, but it is also a great criminal tool.

Routinely, the district attorney's office will go after building operators where, for example, narcotics arrests are made on the premises under section 231 of the N.Y. Real Property Law.<sup>71</sup> The landlord will have to evict the tenant or otherwise potentially be liable for the drug sales that occurring on the premises.<sup>72</sup> They have also done this in a lot of trademark counterfeiting cases in the last couple of years, which is great. It is a terrific tool when we notify landlords about the counterfeit goods.

I don't know if any of you have noticed, but we have a little bit of a problem down in Chinatown with the sale of counterfeit goods, which is actually the single largest retail center of

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unlawful trade, manufacture or business, or knowingly permitting the same to be so used, is liable severally, and also jointly with one or more of the tenants or occupants thereof, for any damage resulting from such unlawful use, occupancy, trade, manufacture or business.”).

<sup>70</sup> *Id.*

<sup>71</sup> See Nassau County Office of Consumer Affairs, *supra* note 70.

<sup>72</sup> See N.Y. REAL PROP. LAW §231(1) (“Whenever the lessee or occupant other than the owner of any building or premises, shall use or occupy the same, or any part thereof, for any illegal trade, manufacture or other business, the lease or agreement for the letting or occupancy of such building or premises, or any part thereof of shall thereupon become void, and the landlord of such lessee or occupant may enter upon the premises so let or occupied.”); see also *supra* note 69 and accompanying text.

counterfeit goods in the country.<sup>73</sup> And most of the counterfeit goods that are sold everywhere else in the country come from vendors down in Chinatown or the organizations that they represent.<sup>74</sup>

On a weekly basis, I drive around the city with a bunch of investigators and police officers in vans that have been painted with graffiti or have funny little signs on them so that they look different every time. When we drive up to a couple of stores down on Canal Street and come flying out of the van, everybody on the street goes nuts and runs around. People are carrying the bags and the watches everywhere, and we run out and seize the goods from these vendors.

Now, this is a little less civilized than what the legislature had in mind. It probably thought that we were going to knock nicely on the door, tell the counterfeiters who we were, show them this nice little seizure order, and that they would just step aside. If you take time to explain that downtown, you are not going to get any counterfeit goods.

The second we hit three or four stores, all of the roll-down gates of the other stores come slamming down, often with customers inside them, who are then locked inside the locations. A number of times some of the customers inside actually have been our undercover agents, so we have an interesting window on what is going on inside there. And they won't let the customers out because if they let them out, then the door must be opened again and then we could come in and take the counterfeit goods.

But every time we do one of these seizures we notify the landlord of what is happening on the premises. And then if the landlord doesn't do something about it, then we go after the landlord. We actually have sued a number of landlords civilly. We never have had to go to a final judgment, although there are some published decisions that basically uphold the provision that

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<sup>73</sup> See Fifield, *supra* note 10, at A1 (noting that Chinatown, in New York City, is a major hub of global counterfeiting).

<sup>74</sup> David H. Freedman, *Chinese Copycats Are Leaving International Brands Fit to Be Tied*, FORBES, Apr. 5, 1999, at 49; see also George James, *Agents Raid Production Lines in Queens*, N.Y. TIMES, Sept. 28, 1995, at B3.

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the landlord can be liable if they know about this and don't take any appropriate action.<sup>75</sup>

So, there is a lot of turnover because landlords will kick out one tenant, and then another tenant will rent the premises again. It's like a revolving door, but it helps to keep the landlords on their toes. It becomes a very expensive proposition for them if they refuse to take any action about the sale of counterfeit goods on their premises.<sup>76</sup>

The federal standard is willful blindness.<sup>77</sup> One is not allowed to be willfully blind.<sup>78</sup> One cannot own a flea market where there are stalls that have open sales of counterfeit goods going on and say, "Really, I didn't see anything. I just kind of walked down and collected my money, but I didn't see anything that was going on in there. How could I have known?" That is the standard—one is not allowed to be willfully blind.

QUESTIONER [Mr. Schaeffer]: I think you already answered my question. I was just going to ask if there was a federal standard. You mentioned New York was the only state that had a law on the books, but what about federal law?

MR. KORMAN: Use a microphone so they can hear you.

MS. MCDONALD: New York State is the only state that has a statute.<sup>79</sup> There is no federal statute. It's a body of case law that has been decided in a couple of circuits that basically upholds this effective proposition.<sup>80</sup> You usually have to make the

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<sup>75</sup> See, e.g., *Religious Tech. Ctr. v. Netcom On-Line Communication Servs.*, 907 F. Supp. 1361, 1374 (N.D. Cal. 1995) ("Where a defendant has knowledge of the primary infringer's infringing activities, it will be liable if it 'induces, causes or materially contributes to the infringing conduct of' the primary infringer." (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt.*, 443 F.2d 1159, 1162 (2d Cir. 1971))).

<sup>76</sup> See *supra* note 34 and accompanying text.

<sup>77</sup> See *United States v. Sung*, 51 F.3d 92, 93–94 (7th Cir. 1995) (holding that the defendant's lack of actual knowledge that the marks were registered was not a defense to prosecution for trafficking in counterfeit goods nor a defense to an infringement claim under the Lanham Act); *United States v. Schmitt*, 748 F.2d 249, 252 (5th Cir. 1984) (holding that the court "will not presume from congressional silence that Congress intended to make knowledge a prerequisite to violating the statutory provision").

<sup>78</sup> See *supra* note 77.

<sup>79</sup> N.Y. PENAL LAW §§ 165.71–73 (2004).

<sup>80</sup> See, e.g., *Hard Rock Café*, 955 F.2d at 1143.



argument—even in New York, you have to use both the state statute and the federal standard.<sup>81</sup>

QUESTIONER [Mr. Schaeffer]: I may be wrong on this, but for narcotics is there not also a federal statute for holding owners liable?<sup>82</sup> If there is, are efforts being made on this front to pass similar legislation in the counterfeiting context?

MS. MCDONALD: There have been some efforts to pass similar legislation in other states, and they have gone nowhere. I don't know if there is a federal law that makes the property owner liable for the sales on the premises.<sup>83</sup> We've had such a difficult time getting any federal laws with regard to the sale of counterfeit goods that trying to stretch it to go to a property owner is just a pipe dream. We're really trying to focus on getting the laws that are already on the books enforced more rather than on trying to create more laws that cannot be enforced.

MS. KOLSUN: Truthfully, we have very good luck with the existing state laws because many of our private investigators are former state law enforcement people, either former cops, former sheriffs, or detectives. They have those relationships with the local law enforcement.

Also, there are all sorts of other laws that practitioners can use in the battle against counterfeiters, like tax laws—I mean, calling the Internal Revenue Service (“IRS”). I can tell you, counterfeiters don't pay taxes. The IRS and state tax authorities like these cases very much. We don't always know how they come out, but they appreciate the information and will do something.

Also, there is asset seizure. We have had very good luck working with a group called the Mayor's Midtown Task Force,<sup>84</sup> which is a group of various organizations in New York City. And

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<sup>81</sup> See, e.g., *People v. Kim*, 621 N.Y.S.2d 479 (Sup. Ct. 1994) (finding instances of counterfeiting, as delineated in New York State law); cf. *United States v. Hanna*, 2003 WL 22705133 (S.D.N.Y. Nov. 17, 2003) (enforcing federal law against counterfeiting in the Southern District of New York).

<sup>82</sup> See 21 U.S.C. § 881 (2003).

<sup>83</sup> *But see id.*

<sup>84</sup> The New York City Trademark Task Force was created in April 2002. See Philip Merrill, *East Coast Raids and Arrests Crack Down on CD Piracy*, *Grammy.com*, at <http://www.grammy.com/news/artswatch/2003/1124cdpiratebusts.aspx> (Nov. 24, 2003).

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recently we have extended it to the Washington, D.C. area. In New York, the task force includes the district attorney's office,<sup>85</sup> the police department,<sup>86</sup> the fire department, the New York City Department of Consumer Affairs ("Consumer Affairs"), and the New York City Department of Buildings—all of the departments that have economic interests in various aspects of what counterfeiters do.

Counterfeiters are bad guys, so if they are selling and manufacturing counterfeit goods, they are also committing all sorts of other violations, including not paying what they should be paying—whether it be rent tax, real estate tax, sales tax, all of those things.

And every state has different versions of this. When we convened the Washington, D.C. group, it was a very similar cast of characters.<sup>87</sup> They might have different names, but there was somebody controlling street vendors, building code violations, etc.

MR. POGODA: Thank you. Also, on the federal level there are two cases that address contributory liability for trademark violations. One was from the Ninth Circuit, which Barbara mentioned, *Fonovisa*.<sup>88</sup> The other one was from the Seventh Circuit, *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, the willful blindness case that Heather mentioned.<sup>89</sup>

MS. MCDONALD: Barbara, why don't you talk a little bit from the in-house counsel's perspective about how you find out about a problem and then what you do about it?

MS. KOLSUN: First, I want to say particularly to the students in the room that intellectual property theft is an issue that is going to be a big part of your future, whether you have had any contact

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<sup>85</sup> *See id.*

<sup>86</sup> *See id.*

<sup>87</sup> To date, there have been only a few meetings between industry representatives and members of the Washington, D.C. government. Nevertheless, the city has increased patrols and sweeps, has issued warnings, has collected data and intelligence, and has considered potential changes to vending laws and regulations. *See Anna Bakalis, Knock It Off: Kate Spade Imitations Target of City Crackdown*, WASH. TIMES, Aug. 4, 2003, at C11.

<sup>88</sup> 76 F.3d 259 (9th Cir. 1996).

<sup>89</sup> 955 F.2d 1143 (7th Cir. 1992).

with counterfeiting or not. In case you haven't noticed, we don't make anything in this country anymore, and most of our assets are intellectual property.<sup>90</sup> Think about every business that Darren mentioned as members of our coalition. Pharmaceuticals, what is their asset? It's the intellectual property of patents by the people inventing the drugs and, of course, their trademarks—Pfizer,<sup>91</sup> Merck,<sup>92</sup> whatever. Similarly, Microsoft's product is intellectual property.<sup>93</sup> And there are also companies like ours. If Kate Spade closed down tomorrow, and if somebody bought our company, he or she would be buying our assets such as our name, our trademark, our copyrights, a few computers, and maybe a few people whom they probably would let go after the merger.

MS. MCDONALD: There's no rumors about that.

MR. POGODA: Haven't heard a thing.

MS. KOLSUN: Intellectual property is the most important thing in the world now. The four of us have been doing this a long time. In the old days, the anti-counterfeiting area in particular was a little subset, and there were about ten practitioners country-wide who did this.<sup>94</sup> Well, now everybody has this problem. It cuts across every industry, every brand. So, this is really important stuff, and it's important for practitioners and students to know about it because it is going to affect somebody that they represent in the future.

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<sup>90</sup> See Kate Spade, *About Kate Spade*, at [www.katespade.com/about/kate/story.html](http://www.katespade.com/about/kate/story.html) (last visited Apr. 2, 2004) (stating that "the company plans to incorporate this signature mark into its identity system and product collections going forward as a complement to the enduring 'kate spade new york' logo").

<sup>91</sup> Pfizer, Inc. develops, manufactures, and markets prescription medicines for humans and animals. See Pfizer, *About Pfizer*, at <http://www.pfizer.com/are/index.html> (last visited Apr. 2, 2004).

<sup>92</sup> Merck & Co., Inc. is a pharmaceutical products and services company. See Merck, *About Merck*, at <http://www.merck.com/about> (last visited Apr. 2, 2004).

<sup>93</sup> See Microsoft Corp., *Microsoft Mission and Values*, at <http://www.microsoft.com/mscorp/mission> (last visited Apr. 2, 2004) (describing the company's development of goodwill over three decades).

<sup>94</sup> See generally ICC Commercial Crime Servs., *ICC Counterfeiting Intelligence Bureau*, at [http://www.iccwbo.org/ccs/menu\\_cib\\_bureau.asp](http://www.iccwbo.org/ccs/menu_cib_bureau.asp) (last visited Apr. 4, 2004) (describing the development of counterfeiting from a cottage industry to a sophisticated, global network).

Especially with the birth of the Internet, it doesn't take much to have a business anymore. Think about eBay<sup>95</sup> or other Web sites. Nobody even has to have a store anymore. Somebody basically can run something out of his or her apartment with a computer. One of our biggest problems both in the luxury brand area with consumer goods and the pharmaceuticals industry is counterfeiting online.<sup>96</sup> We have a huge problem with eBay and other auction sites.

With eBay, somebody can sell items out of his or her bedroom. There are people who make huge livings selling knockoff handbags and other goods.<sup>97</sup> Fortunately, eBay has a very good system. It took many years to get there, by threatening to sue them under the doctrines of contributory and vicarious infringement.<sup>98</sup> They have a system, called the Verified Rights Owner program,<sup>99</sup> in which trademark owners can register with eBay and have the right to close down the auction site before or after the sale of counterfeit goods is made just on the basis of swearing that the item is counterfeit and that they are the rightful owners of the trademark.<sup>100</sup> So, eBay has been very helpful. But that is only one tiny piece of the picture. There are Web sites everywhere. There is Yahoo!,<sup>101</sup> Craigslist,<sup>102</sup> and lots of other problems.

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<sup>95</sup> eBay provides a Web-based platform for people to trade goods. See eBay, *Company Overview*, at <http://pages.ebay.com/community/aboutebay/overview/index.html> (last visited Apr. 2, 2004).

<sup>96</sup> See Mimi Avins, *Cover Story; Fakery in the Bag*, L.A. TIMES, Dec. 4, 2003, at E36 (providing online addresses of businesses partaking in counterfeit sales); see also Melissa Healy, *A Web of Drugs; Online 'Rogue Pharmacies' Offer Quick Access to Prescription Drugs, Many of Them Addictive and Dangerous*, L.A. TIMES, Dec. 1, 2003, at F1 (detailing Internet drug sales).

<sup>97</sup> See generally Avins, *supra* note 96, at E36 (describing booming sales of counterfeits in the Los Angeles area and listing local businesses known as counterfeit retailers).

<sup>98</sup> *eBay Not Liable for Copyright Infringement for Items Auctioned on Its Web Site*, ALERT: DISPUTES/INS. LITIG. (Shaw Pittman LLP), Oct. 2001, available at [http://library.lp.findlaw.com/intellectualpropertylaw\\_1\\_233\\_1.html](http://library.lp.findlaw.com/intellectualpropertylaw_1_233_1.html) (last visited Apr. 2, 2004).

<sup>99</sup> eBay created the Verified Rights Owner ("VeRO") Program so that intellectual property owners easily could report listings that infringe their rights. See eBay, *Protecting Intellectual Property: Overview*, at <http://pages.ebay.com/help/confidence/-programs-vero-ov.html> (last visited Apr. 2, 2004).

<sup>100</sup> See *id.*

<sup>101</sup> Yahoo! provides Internet services for consumers and businesses. See Yahoo!, *Yahoo! We Value . . .*, at <http://docs.yahoo.com/info/values> (last visited Apr. 4, 2004).

How does counterfeiting damage our business? Well, it's huge. We lose sales. Our reputation and goodwill are diminished. Every day we get someone in our store—we're a small company. Kate Spade is a \$70 million, privately-held, ten-year-old company, which was basically started by four entrepreneurs who are still very much involved in the day-to-day running of the business.<sup>103</sup> We have 150 employees. We are very small, and we have a lot to lose. We have been counterfeited probably for at least eight years. Almost from the day we began putting products on the shelves we were being knocked off. Therefore, we lose sales, our reputation, and our goodwill in our business.

People contact us constantly wanting to return a handbag that they bought in Chinatown or somewhere else because the quality of it is so poor—can we fix it, can we return it? Of course we can't, we didn't make it.

Our goods don't have health and safety concerns, but consider pharmaceuticals. My husband got a letter about three months ago. He takes Lipitor<sup>104</sup> for cholesterol. He got a letter from his druggist saying that the Lipitor that he was taking possibly could be counterfeit and requesting that he bring his prescription to the drug store to be scanned. That's pretty serious business.

I remember years ago hearing a lecture at one of our IACC meetings by a law professor named Arthur Best from the University of Denver.<sup>105</sup> He spoke about the fact that some day a wily lawyer was going to sue a pharmaceutical company for an injury caused by counterfeit goods. Think about that. When I heard that ten years ago, I thought that it would never happen. Pfizer didn't make the fake product. Why should they be held

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<sup>102</sup> Craigslist is an online community that features lists of jobs, apartments, and services that pertain to a number of U.S. cities. See Craigslist, at <http://www.craigslist.org/about/mission.and.history.html> (last updated Mar. 14, 2000) (describing Craigslist's mission and history).

<sup>103</sup> See *supra* note 90.

<sup>104</sup> Lipitor is a cholesterol-lowering drug produced by Pfizer, Inc. See Lipitor.com, at <http://www.lipitor.com> (last visited Apr. 2, 2004).

<sup>105</sup> Arthur Best currently is a professor of law at the University of Denver, College of Law. See University of Denver, College of Law, *Professor Arthur Best*, at <http://www.law.du.edu/ArthurBest> (last visited Apr. 6, 2004).

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responsible? Well, you know what? The product has Pfizer's name on it.

Darren, you probably know a little more about this than I do, but this is beginning to happen.

MR. POGODA: And this is another part of the problem that companies face. With regard to what Barbara was saying, a pharmaceutical company could be sued. I think the basis of the lawsuit would be not necessarily that the company made this counterfeit product—obviously it didn't—but that perhaps it didn't do enough to warn its customers that there were substandard products out there. That might be the basis of a lawsuit.

It's a difficult position for a company to be in, no matter what the product is. The question it must ask itself is: do I alert my customers to the fact I have a problem and then scare them all off and have them go to my competitors who are not admitting that they may have a similar problem? So, it's a very difficult position for a company to find itself in.

To their credit, the pharmaceutical industry responded very quickly to this Lipitor scare and notified their customers.<sup>106</sup> My father takes Lipitor and received a letter as well. In that situation, it was fortunate that nobody was hurt. But the next person who makes counterfeit pharmaceuticals might intend to hurt people and may put some kind of poison or biotoxin in the medicine. What is a company going to do at that point? How does it track back medicine that might have fake lot numbers or fake labels on it? In addition to having to come up with the resources to go after everybody that does this, these companies may find themselves in a position in which they are actually being sued for these misdeeds.

MS. MCDONALD: It's not just with drugs and somebody who might intend to hurt people. There are also repercussions that come from what people don't necessarily think of. There have

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<sup>106</sup> See Bloomberg News, *Partial Recall for Top Cholesterol Drug*, N.Y. TIMES, May 24, 2003, at C14; see also Press Release, Food & Drug Admin., 2003 Safety Alert – Lipitor (atorvastatin) Counterfeit Letter (May 22, 2003) (providing the text of the recall letter from Albers Medical Distributors, Inc.), available at [www.fda.gov/medwatch/-SAFETY/2003/lipitor.htm](http://www.fda.gov/medwatch/-SAFETY/2003/lipitor.htm) (last visited Apr. 2, 2004).

been instances in which counterfeit baby formula was sold.<sup>107</sup> Now, it didn't have any horrifying effects that killed a child, but it did also not have the nutritional value that the label said it had.<sup>108</sup> So, parents thought that they were feeding their children baby formula with the appropriate level of nutrition. It is a pretty horrifying situation.

There also have been instances with counterfeit shampoos that had bacteria in them.<sup>109</sup> Now, if somebody who has a depressed immune system may use one of these shampoos and get an infection as a result of it. Clearly, this wasn't the intended result, but somebody's health could be seriously harmed as a result of this.

Oakley sunglasses. Oakley has a video that demonstrates the quality of their sunglasses.<sup>110</sup> They market their glasses to the aggressive youth of this country.<sup>111</sup> If teenagers are snowboarding and mountain biking, Oakley wants them to have a pair of Oakleys on. These are pretty extreme sports, and so they design their glasses in a way that is not going to break if users fall off their skis or crash into a tree. The glasses themselves aren't going to harm users. What users might be doing when they are wearing them is a different story.

The Oakley video shows one of those Styrofoam heads with a pair of genuine Oakleys on it.<sup>112</sup> A BB gun is fired at the head, and the video captures this in slow motion from about ten yards

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<sup>107</sup> See Linda Bren, *Investigators' Reports: Counterfeit Baby Formula Lands Fugitive in Jail*, FDA CONSUMER MAG., Mar.–Apr. 2003, available at [http://www.fda.gov/fdac/departs/2003/203\\_irs.html](http://www.fda.gov/fdac/departs/2003/203_irs.html) (last visited Apr. 2, 2004).

<sup>108</sup> *Id.*

<sup>109</sup> See, e.g., Press Release, Minister for Justice and Customs Senator for Western Australia, Sham Shampoo Flushed Out by Customs (Dec. 24, 2003), available at <http://www.ag.gov.au/www/justiceministerHome.nsf/AllDocs/RWP5FF83C0A28AC4E73CA256E05007DF8BD?OpenDocument> (last visited Apr. 6, 2004).

<sup>110</sup> KCBS television of Los Angeles aired a segment on sunglasses that used footage from the Oakley video to which McDonald refers. See *CBS 2 News* (CBS television broadcast, May 7, 1999) (transcript on file with *Fordham Intellectual Property, Media & Entertainment Law Journal*) [hereinafter *CBS 2 News*].

<sup>111</sup> See generally Margaret Talbot, *Why, Isn't He Just the Cutest Brand-Image Enhancer You've Ever Seen?*, N.Y. TIMES, Sept. 21, 2003, § 6 (Magazine), at 31 (describing marketing techniques employed by companies that seek youth audiences).

<sup>112</sup> *CBS 2 News*, *supra* note 110.

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away.<sup>113</sup> It's designed to replicate the velocity and impact that a pebble coming up under a bicycle tire and hitting the cyclist in the eye would have.<sup>114</sup> The BB pellet hits the lens and bounces right off.<sup>115</sup> One can see a tiny indent and the lenses repelling it.<sup>116</sup> Next, the video shows the same simulation on the same little Styrofoam head, but with a pair of counterfeit Oakleys on it, which look exactly like the genuine Oakleys.<sup>117</sup> The fake lenses give no resistance; the BB goes right through.<sup>118</sup> And guess what? Now the cyclist is going to be blind.

So, Oakley is marketing their stuff to the youth of America,<sup>119</sup> which is also a huge problem with regard to the sale of counterfeit goods because there wouldn't be a market for them if people didn't want them. You really need to educate the next generation of consumers as to why they shouldn't be buying a pair of Oakleys for \$5 from a guy selling them out of a garbage can at the corner of 53rd and Fifth Avenue. Why? Because consumers could be very seriously harmed if they are wearing the glasses for the very things that Oakleys are designed to be worn for.

MR. KORMAN: I guess the suggestion is being made that the Lipitor gets into the commerce stream because pharmacists are buying cheap Lipitor?

MS. MCDONALD: It's unclear how counterfeit Lipitor makes it there.

MR. KORMAN: But it's a very different situation from somebody buying what should be very expensive glasses<sup>120</sup> and spending \$5 for them. Somebody is paying full price for the Lipitor, and somebody is making a profit because it's phony. Who is making the profit?

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<sup>113</sup> See *CBS 2 News*, *supra* note 110.

<sup>114</sup> See *id.*

<sup>115</sup> See *id.*

<sup>116</sup> See *id.*

<sup>117</sup> See *id.*

<sup>118</sup> See *id.*

<sup>119</sup> See Talbot, *supra* note 111, § 6 (Magazine), at 31.

<sup>120</sup> See, e.g., Oakley, *Results For: Polarized In Eyewear* (online catalogue for one Oakley high-end product line).



MR. POGODA: In terms of the pharmaceutical market, that is sort of its own beast in terms of how the counterfeit pharmaceuticals get into America.

MR. KORMAN: I take Lipitor so I'm particularly interested in this.

MR. POGODA: Now, most of the time, and especially in America, the supply chain from the manufacturer to the person who actually distributes the supply is pretty secure. The reason it is usually pretty secure is because it goes straight from the manufacturer to the distributor and that's it—there is nothing in between. It doesn't go anywhere else, doesn't get diverted, and doesn't get shipped anywhere.

But as people are beginning to turn to alternative sources for medicine—for instance, from Canada<sup>121</sup> or the Internet<sup>122</sup> where anybody could be sending stuff by mail. In Mexico, there are over 1,500 pharmacies in Tijuana alone.<sup>123</sup> Up until a year ago, I think, Mexican law didn't even require a pharmacist to have any training.<sup>124</sup> It's estimated that thirty-five percent of the pharmaceuticals down there are counterfeit,<sup>125</sup> and they are brought into America.<sup>126</sup> Or if an area in the country isn't served by one of the three or four major distributors of pharmaceuticals in America,<sup>127</sup> they go to what is called the secondary wholesale

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<sup>121</sup> See Robert Pear, *U.S. to Study Importing Canada Drugs*, N.Y. TIMES, Feb. 26, 2004, at A16; see also Bob Tedeschi, *Looking to Canadian Web Pharmacies for Savings*, N.Y. TIMES, Mar. 8, 2004, at C4.

<sup>122</sup> For an example of a Canadian Web-based pharmacy, see [www.Canada-Pharmacy.com](http://www.Canada-Pharmacy.com), at <http://www.canadapharmacy.com> (last visited Apr. 6, 2004).

<sup>123</sup> See Sarah Lunday, *When Purchasing Medicine in Mexico, Buyer Beware*, N.Y. TIMES, Apr. 17, 2001, at F5.

<sup>124</sup> See *id.* (highlighting that “Mexican laws allow stores to open with just a business license and allow pharmacists to work with no training in dispensing drug prescriptions”).

<sup>125</sup> See generally *id.* (noting that “American law enforcement officials said the amount of counterfeits and substandard medications [in Mexico] could be as high as 25 percent”).

<sup>126</sup> *Id.*

<sup>127</sup> Cardinal Health, Inc., AmerisourceBergen Corporation, McKesson Corporation, and Owens & Minor, Inc. are the top four pharmaceutical distributors in the United States. See Hoover's Online, *Cardinal Health, Inc.*, at <http://premium.hoovers.com/subscribe/-co/factsheet.xhtml?ID=12894> (last visited Apr. 6, 2004); see also Vault, *AmerisourceBergen Corporation*, at <http://www.vault.com/company/AmerisourceBergenCorporation.html> (last visited Apr. 6, 2004).

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market, which only accounts for about five percent of all the drugs.<sup>128</sup> This is significant, but not a lot obviously, and that market is largely unchecked by federal and state regulators.<sup>129</sup>

Take, for instance, somebody looking to slip something into the supply chain. Let's say the correct dosage for a particular drug is 200 milliliters. This person takes the label off, relabels it 400 milliliters, and sells it for twice the price. Then the consumer is getting only half of what he or she needs.

Therefore, the pharmaceutical market is unique because of what you're dealing with. Obviously, the industry is heavily regulated already, so counterfeiters have to be even more sly in terms of how they get fakes into the market.

MR. KORMAN: Thank you.

MS. KOLSUN: By the way, this topic of talking to the press and broadcasting the counterfeiting problem in terms of pharmaceuticals versus luxury goods is a very contentious one within our trade association, as one can hear from the different points of view. People have very different points of view about speaking out about counterfeiting.

Our problems at Kate Spade are pretty widespread. We have a huge problem with eBay.<sup>130</sup> We have a huge problem with Internet sales. We have a big problem with flea markets. We have a huge problem in Chinatown, as those of you who go down there know. Street vendors. We also have an enormous problem with retail stores in areas that we don't necessarily have access to through private investigators. There seems to be an enormous problem right now with beauty stores and hairdressers selling counterfeit handbags as an extra source of income.<sup>131</sup> Kiosks in malls, too.<sup>132</sup>

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<sup>128</sup> See FOOD & DRUG ADMIN., THE PRESCRIPTION DRUG MKTG. ACT: REP. TO CONGRESS (June 2001), available at <http://www.fda.gov/oc/pdma/report2001> (last visited Apr. 6, 2004).

<sup>129</sup> *Id.*; see also Letter from Judith Cahill, Executive Director, Managed Care Pharmacy, to Documents Management Branch, Food and Drug Administration (Oct. 30, 2003), available at <http://www.fda.gov/ohrms/dockets/dailys/03/Nov03/110503/03N-0361-emc-000009-01.doc> (last visited Apr. 15, 2004).

<sup>130</sup> See *supra* note 95.

<sup>131</sup> See Timothy W. Maier, *Counterfeit Goods Pose Real Threat*, INSIGHT ON THE NEWS, Oct. 30, 2003, available at 2003 WL 8396117.

We are still primarily a domestic company, but we have distributors in Japan,<sup>133</sup> where we are actually doing very well, as well as in Korea<sup>134</sup> and Hong Kong.<sup>135</sup> We're really growing in the Philippines,<sup>136</sup> growing in Asia.<sup>137</sup> We will be in China.<sup>138</sup> We manufacture our goods in China and Italy. We are getting the ball rolling in Europe. We're growing and growing.

As I said jokingly earlier, we have a tiny little budget for counterfeiting. A big problem, little money. And so how do we divvy up that money? Wherever possible, we work with law enforcement because criminal actions give the most bang for the buck. It sends a message. People often don't do this again once they have been arrested, when they see a search warrant for their home, or when a policeman or even a private investigator has shown up. So, that has been very successful. We send a lot of cease-and-desist letters, which often have a good effect.<sup>139</sup> A lot of people reply, "I just didn't know."

I spoke to a woman, who has been selling counterfeits for several years, on the phone this morning. She has given many house parties. She sounded fairly intelligent. She said, "I didn't know this was wrong." Query whether that's believable. Be that as it may, I don't think she will do it again.

We don't sue people. The only civil action that we're involved in is one that Heather's firm handles—the Chinatown seizures.

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<sup>132</sup> See, e.g., Press Release, Office of the District Attorney Nassau County, DA Dillon Announces Arrests in Sale of Fake Designer Merchandise (Nov. 19, 2003), available at <http://www.nassauda.org/DAwebpage/pressreleases/counterfeit%20trademarking%20release.htm> (last visited Apr. 6, 2004).

<sup>133</sup> See Kate Spade, *kate spade shops – japan*, at <http://www.katespade.com/shops/-japan.html> (last visited Apr. 6, 2004).

<sup>134</sup> See Kate Spade, *international distribution*, at <http://www.katespade.com/shops/-intl.html> (last visited Apr. 6, 2004).

<sup>135</sup> See *id.*

<sup>136</sup> See *id.*

<sup>137</sup> See *id.*

<sup>138</sup> See *id.* (listing several international distribution sites, including Hong Kong—which is now under Chinese leadership—as well as Taiwan).

<sup>139</sup> See Christian, *supra* note 65, at B2 (describing how Kolsun “writes ‘bags worth’ of cease-and-desist letters to retailers, and places just as many telephone calls to police departments around the country and to private investigators, who help identify couture copycats and who coordinate raids”).

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That is because Chinatown is such an enormous problem for us that we just can't count on pure criminal actions down there to solve the problem because the police just can't be there all the time. I don't know why Chinatown is such a huge problem.

Heather, any thoughts?

MS. MCDONALD: Every single day somebody gets arrested in Chinatown for selling counterfeit goods. But obviously, the a police department has a lot of other responsibilities. So, what happens is that when the police arrests somebody, everybody else shuts their doors just until they are sure that they are not the target of that day's operation. Once the police leave, they are usually certain that the enforcement is done for the day, and then they all open up and start selling again.

I think that it started out as a place where it was a retail market. The sale of counterfeit luxury and consumer goods always has been dominated by Asian countries.<sup>140</sup> The goods are all made in Asian countries.<sup>141</sup> In the United States they are primarily sold by people of Asian descent or Asian-Americans that are here. That seems to be the distribution chain in the United States. So, Chinatown is a very natural place where a lot of this happens.

Also, Chinatown became known as a bazaar where one could buy knockoff goods. Just a couple of years ago, somebody asked me, "Did you know that there's a guidebook out there that says that if you want to get great deals on fake Rolex watches and Louis Vuitton bags, you should go to Chinatown?" I couldn't believe this. So, I sent an investigator out to Barnes & Noble<sup>142</sup> and told him to buy me this book. Well, the investigator came back with two shopping bags full of books; there were about fifty guidebooks to New York that all talked about the sale of counterfeit goods in

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<sup>140</sup> Three of the five most common points of origin for counterfeit goods are China, Hong Kong, and Korea. See Press Release, U.S. Customs & Border Prot., U.S. Customs and Border Protection Announces Intellectual Property Rights Seizure Data (Jan. 14, 2004), available at [http://www.cbp.gov/xp/cgov/newsroom/press\\_releases/0012004/01142004\\_2.xml](http://www.cbp.gov/xp/cgov/newsroom/press_releases/0012004/01142004_2.xml) (last visited Apr. 6, 2004).

<sup>141</sup> See Wilson, *supra* note 6, at B2.

<sup>142</sup> Barnes & Noble is the largest bookseller in the United States, with approximately 800 stores in 49 states. See Barnes & Noble Booksellers, at <http://www.barnesandnobleinc.com> (last visited Apr. 6, 2004).

Chinatown.<sup>143</sup> We wrote to all the publishers and told them that it was illegal. They all said, “Oh, okay, we’ll take it out of next year’s print.” Meanwhile, this year’s *Time Out New York*<sup>144</sup> has a reference to it as well, and we recently have written to them.

This is a problem that we’ve had with educating the public as to why they shouldn’t be buying counterfeit goods. As long as there is the demand sellers are going to meet that demand.

There are bus companies like the Gray Line double-decker buses,<sup>145</sup> which have stops in Chinatown. There are people—I think they are called barkers<sup>146</sup>—who are trying to get riders onto the buses. They actually say, “Come on, come on, twenty bucks, you can drive around New York all day. This one is taking you down to Chinatown. You can buy a fake Gucci bag down there.” They were trying to get riders onto the buses by luring them to buy counterfeit goods downtown.

It is unknown which came first. Because Chinatown has become known as such a huge marketplace for counterfeit goods, more and more people go there, causing more and more people sell there.

MS. KOLSUN: But even with this combined civil-criminal process that we’re involved in with Chinatown, it’s still an enormous problem. We get letters in response to our cease-and-desist letters on a daily basis, because we always ask the sellers of counterfeit goods where they got their products. Fifty percent of the time the answer is Chinatown, even if they don’t live in New York because they order them by e-mail or by mail.

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<sup>143</sup> Cf. Frommer’s, New York City: Shopping, *The Top Shopping Streets and Neighborhoods*, at <http://www.frommers.com/destinations/newyorkcity/0021023037.-html> (last visited Apr. 6, 2004) (noting that, in Chinatown, “you’ll find a mind-boggling collection of knock-off sunglasses and watches, cheap backpacks, discount leather goods, and exotic souvenirs”).

<sup>144</sup> *Time Out New York* is a yearly publication that details entertainment activities available in New York City. For more information, see *Time Out New York*, at <http://www.timeoutny.com> (last visited Apr. 6, 2004).

<sup>145</sup> See Gray Line, *Sightseeing*, at <http://www.graylinenewyork.com/sightseeing.cfm> (last visited Apr. 6, 2004).

<sup>146</sup> See generally Independent Traveler, Inc., *Travel Journals*, at <http://independent-traveler.igougo.com/planning/journalEntryFreeForm.asp?JournalID=5871&EntryID=5332> (Apr. 8, 2001) (describing a bus barker at work).

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MS. MCDONALD: A question?

QUESTIONER [Mr. Schaeffer]: You brought up an issue about a woman who claimed to be ignorant of the fact that it was illegal, and then you mentioned that these guidebooks are out there, it leads me to believe that either there is a huge section of America that just doesn't think this is illegal or doesn't think it should be. Going forward, I wonder if education is enough, or if there are going to be societal changes as to what is and isn't illegal and what we are going to protect. Do you have any thoughts on that?

MS. KOLSUN: I could go on a soapbox about that because I think that the—I hate to use the word morality—ethics in this country are woefully in danger at this point. Just think about the cheating that is going on because of the ability to download music from the Internet over the last six months.<sup>147</sup> And yes, I am definitely in favor of the recording industry lawsuits for downloading of music<sup>148</sup> because I think it sends a message that has to be sent.

I do a lot of interviews and I get asked all the time by reporters this question: “Well, you know, Kate Spade bags are so expensive, why shouldn't we buy a knockoff?” The answer is that it's stealing, number one; it's no different than walking into the Kate Spade store in SoHo and stealing a bag right off of the shelves. How is it any different?

It's also not fair. I mean, life isn't fair. We can't all afford what we would like to have. There is some kind of a sense in this country—and I'm just going to talk about this country because it is the only place I have ever lived—that we are entitled to whatever we want. I mean, look at the news in terms of the greed, what's going on in the world right now with Enron<sup>149</sup> and Richard

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<sup>147</sup> See, e.g., Phil Kloer, *CD Sales Rebound; Downloads Still on Rise*, ATL. J-CONST., Mar. 8, 2004, at 1C.

<sup>148</sup> Currently, the defendants in these lawsuits are identified by their Internet protocol addresses. See Jon Borland, *RIAA Embarks on New Round of Piracy Suits*, CNET News.com, at <http://zdnet.com.com/2100-1104-5144558.html> (Jan. 21, 2004).

<sup>149</sup> The Enron Corporation has filed for Chapter 11 bankruptcy protection. See Enron.com, at <http://www.enron.com/corp/> (last visited Apr. 6, 2004).

Grasso<sup>150</sup> and everything else, regardless of what side of the fence you are on. We are in a very greedy society, and people want, want, want, want. When I was growing up, we shopped at stores that we could afford. We shopped at Sears rather than Lord & Taylor. This has been lost.

That's why I think education is key. I mean, yes, there definitely has to be some thought, and the music industry is certainly doing a lot of soul searching in terms of the price of a CD. But what makes something cost what it does? It's a fact that a legitimate business pays taxes, contributes to workers' compensation, and contributes to the health and safety of workers. People really don't understand that counterfeit goods, be they Kate Spade purses, Rolex watches, or knockoff pharmaceuticals, are not made under the conditions that genuine goods are. We have rules about how to make things so that they don't hurt people, so that the quality is of a certain level.

I don't know how to spread that message. It's truly the biggest challenge that we all face. In the last ten years we have joined together in organizations like the IACC so that we are sending a message that this isn't just about a knockoff Rolex watch. This is about a much bigger picture. This is about really the whole basis of our society.

Think of my comment about how you're all going to be involved in nothing but intellectual property in your careers. It will ring true to you many times. I mean, that's what we do, that's what we do best, and that's what people are rewarded for. We've got to get that message across. I don't know how to do it—perhaps in schools or by advertising campaigns.

QUESTIONER: That was my next question. I was wondering what kind of educational campaigns are taking place right now, perhaps with the IACC?

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<sup>150</sup> Richard Grasso is the former chairman of the New York Stock Exchange, who resigned in the wake of the public disclosure of his compensation package. See Dan Ackman, *New Deals for Fastows, and Maybe Grasso*, Forbes.com, at [http://www.forbes.com/2004/01/08/cx\\_da\\_0108topnews\\_print.html](http://www.forbes.com/2004/01/08/cx_da_0108topnews_print.html) (Jan. 8, 2004).

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MR. POGODA: I do know whether the Motion Picture Association of America (“MPAA”)<sup>151</sup> is the one that started a program in the schools, where they go in and talk to school children.<sup>152</sup> But I’m ninety-nine percent certain that it’s the MPAA. It might be the recording industry, but I’m pretty sure it’s MPAA.

MS. KOLSUN: The MPAA also has a very good television campaign, which some of you might have seen, where they do little bits on people who work in the motion picture industry and who are not movie stars or producers or directors.

MR. POGODA: And these bits are played before movies. And I know that when they go into the schools they will do stuff such as have the children produce a piece of work. Or they will ask them, “What about that paper you turned in? What if the day you turned it in everyone in the class was just allowed to go copy it and turn in the same thing? How would that make you feel?” And they try to discuss things along those lines to get children thinking in terms of theft.<sup>153</sup>

I hate to say it, but the generation of people ages five to about fifteen is kind of lost, but they certainly have the mentality that if it’s on their computer screen, it’s theirs for the taking. Obviously, at some point that mentality is going to have to be changed.

You can change it, like Barbara said, by telling people to look at the bigger picture. Depending on the product involved, there could be some severe consumer-health and safety risks to the public; a lot of governments will lose tax dollars; and companies will lose money because they’re selling less product, which means they might lay off people.

Ask people to think about where their money is going. The U.S. government has established links between counterfeit goods and terrorists looking to counterfeit goods as a means of

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<sup>151</sup> The Motion Picture Association of America advocates for the American motion picture, home video, and television industries. See Motion Picture Ass’n of Am., *About MPA, MPAA*, at <http://www.mpa.org/about> (last visited Apr. 6, 2004).

<sup>152</sup> See Laura M. Holson, *Studios Fight Piracy With Education*, N.Y. TIMES, Dec. 29, 2003, at C6.

<sup>153</sup> *Id.*



funding.<sup>154</sup> When people start looking at the fact that the September 11th attacks cost about \$500,000 to put together<sup>155</sup> and the fact that 1,500 pirated copies of Microsoft Office 2000 easily could be sold for above that, maybe then people will think about where their money is going. They might begin to question why all twenty people on this corner in Chinatown have the exact same purse and whom is it coming from? Someone must be supplying them.

QUESTIONER: I read the hearings. I was thinking that it would be really great if the IACC could come up with something similar to what Arianna Huffington<sup>156</sup> said about SUVs, that SUVs are un-American.<sup>157</sup> The IACC could say that counterfeiting is un-American and create a political stand on it. I suppose if I weren't in the intellectual property field, I probably wouldn't know much about counterfeiting.

MR. POGODA: Do you want to be our public relations ("PR") person?

MS. MCDONALD: Claiming that SUVs are un-American and that people support terrorism because they drive them<sup>158</sup> actually was a failure from an advertising point of view. The ad was withdrawn very quickly because it had the exact opposite reaction than what was hoped. The intended effect was to get people to

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<sup>154</sup> See Associated Press, *Counterfeit Goods Source of Funding for Terrorists* (July 17, 2003), available at [http://www.satrib.com/2003/Jul/07172003/nation\\_w/76089.asp](http://www.satrib.com/2003/Jul/07172003/nation_w/76089.asp) (last visited Apr. 4, 2004).

<sup>155</sup> Tim Golden, *Spanish Judge Holds 3 Moroccans on Murder Charges*, N.Y. TIMES, Mar. 19, 2004, at A7 (stating that FBI officials estimate the costs of the September 11th attacks to be \$500,000).

<sup>156</sup> Arianna Huffington is a nationally syndicated columnist and author. For more information about Huffington, see Arianna Online, at [www.ariannaonline.com](http://www.ariannaonline.com) (last visited Apr. 6, 2004).

<sup>157</sup> See Arianna Huffington, *Road Outrage: How Corporate Greed and Political Corruption Paved the Way for the SUV Explosion*, Arianna Online, at <http://www.ariannaonline.com/columns/files/010603.html> (Jan. 6, 2003).

<sup>158</sup> This advertising campaign, known as the Detroit Project, markets cars of increased fuel efficiency to the American consumer. The advertisements suggest that SUVs are un-American, and that purchasers of cars with inefficient gas mileage support terrorism because the fuel for their cars tends to come from nations more sympathetic to terrorist causes. See Detroit Project, at <http://www.thedetroitproject.com/ads/default.htm> (last visited Apr. 6, 2004).

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say, “If I drive this car and it uses a lot of gas, which is made in Arab countries that support terrorism, then I shouldn’t drive this car.” But this was too big of a stretch for most people to make.

It did not decrease sales.<sup>159</sup> I read in an advertising journal that people had approached companies and told them, “Somebody tried to tell me that I shouldn’t buy a SUV, and that’s just bull. I was going to buy a smaller car, but now I’m going to look at a bigger one.”

QUESTIONER: Counterfeiting supporting terrorism is a little bit different.

MS. MCDONALD: You would think so. The FBI has proven conclusively that most of the funding for the first World Trade Center bombing in 1993 came from the sale of counterfeit t-shirts on Fifth Avenue in New York City.<sup>160</sup> So, one has to ask, “Where did the money for the one that killed a lot more people come from? Did it come from the sale of counterfeit goods?”

It’s a big problem. Counterfeiting is not perceived as a crime on the same level as a lot of other crimes.<sup>161</sup> So, some really big criminal people are getting involved in it. Why? Because the government doesn’t take it as seriously, they are not going to go to jail for as long, and it is less likely that they are going to get caught.

You have to try to educate everybody on every level, starting with the grassroots. God help any one of Barbara’s or my friends

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<sup>159</sup> See Bella English, *A Groundswell Against SUVs: King-Size Vehicles Stir Some Large Resentment*, BOSTON GLOBE, Feb. 10, 2003, at B7 (noting that sales of SUVs have remained strong, at least according to anecdotal evidence, despite The Detroit Project’s advertising campaign).

<sup>160</sup> See Nick Smith, *Counterfeiting Funds Terrorists*, U.S. Congressman Nick Smith, at <http://www.house.gov/nicksmith/col30720.htm> (July 20, 2003) (noting that at a July 16, 2003 hearing of the House’s Committee on International Relations, discussions “made clear the links between counterfeiting and terrorism. Among the many links discussed were the following: (1) the terrorists who bombed the World Trade Center in 1993 operated a shop . . . in New York City selling counterfeit textiles . . .”).

<sup>161</sup> See, e.g., Debra D. Peterson, *Criminal Counterfeiting and Component Parts: Closing the Perceived “Label Loophole”*, 30 AIPLA Q. J. 457, 459 (2002) (“Trademark counterfeiting has been estimated to cost legitimate U.S. businesses over \$200 billion annually and has been increasingly linked to violent crime, drug trafficking, money laundering, and terrorism.” (citation omitted)).

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that ever talks about buying a counterfeit item. Between the two of us, we talk to anybody who will listen to us.

MS. KOLSUN: We take it very seriously and very personally.

MR. KORMAN: We have a question over here. Mr. Ed Kramer?

QUESTIONER: Before asking a question, I have one quick comment. When I read in the papers daily that executives of major corporations are getting canned<sup>162</sup> and are ending up with hundreds of millions of dollars,<sup>163</sup> I think that has an effect on whether there is something terrible about buying a counterfeit product because where is that money going? You can't miss it every day. But that's a gratuitous comment.

My question is as follows. My office is right near Bloomingdale's. Every day on that block—

MS. KOLSUN: We know them well.

QUESTIONER: They are there morning and night. A lot of visitors come there. When people see them every single day, they come away and say, "What could be so terrible? They are here."

MR. KORMAN: The inference must be that it is lawful.

QUESTIONER: What Mr. Korman just said is what I was about to say, but he beat me to it. I'm on Lipitor too, but that's all right.

MR. KORMAN: Maybe you're not getting the right Lipitor.

QUESTIONER: That's probably it. But when you see them there every single day, you almost assume that there is nothing wrong with it.

MR. KORMAN: I was going to ask this. When the same people are displaying the same watches at the same place day after day after day, why does that continue? Wouldn't it seem sensible that persuasive people such as you three could arrange to have a sweep and just pick up all these things one day after a brief interview with the Police Commissioner?

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<sup>162</sup> See, e.g., Joann Lubin, *Career Journal: Windfalls Are Common in Ousters Over Alleged Ethics Violations*, WALL ST. J. Nov. 25, 2003, at B8.

<sup>163</sup> See, e.g., *id.*

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MS. MCDONALD: We did a sweep two days ago.

MR. KORMAN: What happened?

MS. MCDONALD: Sixteen people were arrested right outside of Bloomingdale's. There's a whole group of them that are back the next day. We followed some guys who sell bags out of boxes around for awhile. We discovered that they were renting space in a parking garage on West 56th Street. At 10:00 o'clock at night they would go there to drop the boxes off. So, I went with a team of people at 11:00 o'clock at night into the parking garage and served the papers on the guy. We were taken down to the second level where there were forty-seven vendors' boxes full of counterfeit goods. We seized them all. The next day they were back out on the street.

One time we were doing a raid near Bloomingdale's. I had two vans. There was a bunch of cops there as well our investigators. An inspector in the New York City Police Department assigned to the Traffic Division came up to me with his handcuffs in his hand. He told me that I was creating a traffic problem in his area and that if I didn't get out of there I would be handcuffed.

I replied, "These guys are violating these laws and I am here trying to enforce them. And you are going to take me away because I am creating a traffic problem?"

MR. KORMAN: What was his answer?

MS. MCDONALD: Well, he was very unhappy. And when I met with his boss the next day, the inspector was even less happy when he got demoted because it was such a huge gaffe on his part.

MR. KORMAN: But what is the answer? You can't have sweeps. The police have other things to do.

MS. KOLSUN: We actually met with one of our other Mayor's Midtown Task Forces,<sup>164</sup> in the Times Square area, for the first time last week. The room was full of probably the most important people in New York. In fact, Heather told me not to talk. She said, "This is a meeting where you need to sit in the back row and be quiet."

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<sup>164</sup> See *supra* note 84 and accompanying text.

I was amazed to hear how upset they were. Think about Bloomingdale's, right in front of Bloomingdale's. You don't think that hurts their business? The sidewalks of New York right now are absolutely packed with vendors. There is a whole issue, which you probably have been following in the paper, about the vendor law that expired in March<sup>165</sup> and the First Amendment. There is a law dating back to the Civil War that protects the right of disabled American veterans, who basically can sell whatever they want on the street.<sup>166</sup>

Thus, it is a very complicated problem. You can't imagine the amount of strategizing and politicking that we as a group do. Our companies, including all the companies that Darren mentioned, represent a big chunk of the Gross National Product. Our little 150-member organization includes Microsoft, General Motors, and Pfizer. We're talking about big, big companies.

QUESTIONER: I have two questions. But first, I have a comment. Barbara, in case you weren't here this morning, I said something much along the lines of what you said and got accused of being an outlier.

In any event, the first question goes to section 231 of the New York Real Property Law.<sup>167</sup> For certain purposes, as I understand it, landlords and property owners in New York City are responsible for what goes on—for example, on the sidewalk when it snows. I take it for this purpose Bloomingdale's is not responsible for what occurs on their sidewalk.

MS. MCDONALD: Well, that's correct. In fact, there was one case on point in which it was determined that the activities by independent people on the sidewalk was not the property owner's responsibility.<sup>168</sup> That is something that we tried to push for at the same time.

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<sup>165</sup> See Alan Feuer, *Enforcement of Law Sends Many Street Vendors Packing*, N.Y. TIMES, Mar. 7, 2004, § 1, at 29 (describing results from the change in New York vendor law).

<sup>166</sup> *Id.*

<sup>167</sup> N.Y. REAL PROP. LAW § 231 (2004).

<sup>168</sup> See *Parker v. D/u Third Realty Co.*, 530 N.Y.S.2d 137, 140–41 (App. Div. 1988) (holding that “a property owner has no responsibility to extend [security] protection to

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Bloomingtondale's takes it very seriously. They have hired security people to try to get these vendors away from there. But the problem isn't just the sidewalk. There are actually almost never any vendors right in front of Bloomingtondale's. They are across the street, on the opposite side of the street, and on the corners. Bloomingtondale's can't get their own people to move them along. So, the vendors set up across the way because they still have access to all the same people who are going in and out of Bloomingtondale's.

QUESTIONER: I also take it that the notion of contributory infringement is a fairly well-accepted principle in your context. I'm curious as to why that same principle doesn't seem to be accepted by the courts in the copyright/music/reproduction and scenario that we were talking about in Panel I this morning with respect to peer-to-peer networks.<sup>169</sup>

I don't know if you happened to see the interview that Ed Bradley had with the President of Grokster on Sunday night.<sup>170</sup>

MS. KOLSUN: I've heard him.

QUESTIONER: He took the view of the three monkeys—hear no evil, see no evil, speak no evil—and he seems to be getting away with it, whereas in your context it would be different.<sup>171</sup>

MS. KOLSUN: I heard a very interesting debate between Verizon and the recording industry, which is hitting Internet service providers as well.<sup>172</sup> It's very complicated. To me, it's

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'the millions of individuals who use the sidewalks of New York City'" (quoting *Waters v. New York City Hous. Auth.*, 69 N.Y.2d 225, 230 (1987)).

<sup>169</sup> For a description of a peer-to-peer network, see Webopedia, *Peer-to-Peer Architecture*, at [http://www.webopedia.com/TERM/p/peer\\_to\\_peer\\_architecture.html](http://www.webopedia.com/TERM/p/peer_to_peer_architecture.html) (last visited Apr. 7, 2004).

<sup>170</sup> See CBS News, *Pirates of the Internet*, at <http://www.cbsnews.com/stories/2003/10/31/60minutes/main581153.shtml> (Nov. 2, 2003) (providing highlights of the interview with the president of Grokster, Wayne Rosso, on *60 Minutes*).

<sup>171</sup> See *id.* (quoting the president of Grokster as saying that "he has no way of knowing what people are downloading" and that it cannot be stopped).

<sup>172</sup> See generally John Schwartz, *Court Limits Efforts to Unmask Music Swappers*, N.Y. TIMES, Dec. 20, 2003, at A1 (explaining how the recording industry "has begun to pursue other tactics in its fight against file traders" including pursuing "Internet service providers, including a number of colleges, to give up the names of file traders with a simple subpoena").

rather sad that somebody like Verizon doesn't see itself as a partner with the recording industry as opposed to an enemy—I mean, they've got their own intellectual property. It just dilutes the issue vis-à-vis the consumer.

MR. POGODA: In terms of the distinction between the copyright and the trademark cases, the principle of contributory liability is accepted on both sides.

With regard to the issue involving the guy from Grokster that was on the *60 Minutes* piece on Sunday, in *A&M Records Inc. v. Napster*<sup>173</sup> Napster was held contributorily liable,<sup>174</sup> but not Grokster, Morpheus, and KaZaA, who all were in another case.<sup>175</sup> The latter three all operate differently than Napster. Napster operated a server, and all the file sharing was taking place within Napster.<sup>176</sup> Grokster just distributes free software, and then people form their own super-nodes, which are many networks hanging out there in cyberspace.<sup>177</sup> No one really has any control over it.<sup>178</sup> Therefore, the court ruled that Grokster only releases the software and had no idea what the users were sharing.<sup>179</sup> They could be sharing outlines for a law school exam—I mean, anything. It doesn't necessarily have to be illegal.

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<sup>173</sup> 284 F.3d 1091, 1097 (9th Cir. 2002) (finding that the district court's injunction "correctly reflected the legal principles of contributory and vicarious copyright infringement").

<sup>174</sup> See *id.*

<sup>175</sup> See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1045–46 (C.D. Cal. 2003) (finding that "[t]he doctrine of vicarious infringement does not contemplate liability based upon the fact that a product could be made such that it is less susceptible to unlawful use, where no control over the user of the product exists").

<sup>176</sup> See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011–12 (9th Cir. 2001) (describing Napster's technological framework).

<sup>177</sup> See *Metro-Goldwyn-Mayer Studios*, 259 F. Supp. 2d at 1032–33.

<sup>178</sup> See *id.*

<sup>179</sup> The court stated that "[a]bsent evidence of active and substantial contribution to the infringement itself, Defendants cannot be liable." *Id.* at 1043. The court further concluded that "[p]laintiffs' notices of infringing conduct are irrelevant if they arrive when Defendants do nothing to facilitate, and cannot do anything to stop, the alleged infringement. *Id.* at 1037.

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It was the same argument made in *Sony Corp. of America v. Universal Studios, Inc.*<sup>180</sup> There, the VCR producer said, “Sure, people could do something illegal with it, but we have no idea.”

That’s why in the Grokster case was different than *Napster*. Now, it is up on appeal.<sup>181</sup> The copyright folks have some very strong arguments. I wouldn’t be surprised at all if they won.

MR. KORMAN: Are there other questions? Yes?

QUESTIONER: What is the level of federal interdiction at the port of entry? It sounds as if a lot of these things are not the type of items that could enter the United States in one shipping carton and spread countrywide. Rather, we are talking about items that are tremendous volume, high bulk—tee-shirts, pocketbooks, etc. They would have to arrive in tens of thousands of shipping containers, which are not going to come across the border in cigarette boats or be smuggled across by little airplanes, as narcotics are.<sup>182</sup> This stuff has to be delivered in bulk through ordinary ports of entry.<sup>183</sup>

MS. KOLSUN: I’m glad that you asked that because that was a point that I wanted to make today. One of our greatest allies is U.S. Customs.<sup>184</sup> In addition to the registration of trademarks with the U.S. Patent and Trademark Office,<sup>185</sup> there is another system of recordation of trademarks with U.S. Customs, which is very

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<sup>180</sup> *Sony Corp. of Am. v. Universal Studios, Inc.*, 464 U.S. 417 (1984).

<sup>181</sup> *Kazaa Wins Dutch Ruling*, N.Y. TIMES, Dec. 20, 2003, at C2.

<sup>182</sup> See generally Dep’t of State, *Bureau for International Narcotics and Law Enforcement Affairs*, at <http://www.state.gov/g/inl> (last visited Apr. 7, 2004) (describing the bureau’s goals to “reduce the entry of illegal drugs into the United States”); see also Dep’t of Justice, *Drug Trafficking in the United States*, at [http://www.usdoj.gov/dea/concern/drug\\_trafficking.html](http://www.usdoj.gov/dea/concern/drug_trafficking.html) (last visited Apr. 7, 2004) (detailing the trafficking of illegal narcotics by air, land, and sea).

<sup>183</sup> See generally 19 C.F.R. § 101.3 (2004) (customs service ports and ports of entry).

<sup>184</sup> E.g., Press Release, Customs & Border Prot., U.S. Customs Cracks Multi-Million Dollar Counterfeit Computer Components Smuggling Operation in Miami (Oct. 22, 2002); Press Release, Customs & Border Prot., U.S. Customs Steamrolls Counterfeit Merchandise (Oct. 25, 2000).

<sup>185</sup> See Pat. & Trademark Office, Basic Facts About Trademarks, *What Does the USPTO Do?*, at <http://www.uspto.gov> (last visited Apr. 7, 2004).



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inexpensive and can be done by trademark holders in-house.<sup>186</sup> I did all of ours.

Recording the trademarks with U.S. Customs is only step one. Then the trademark holders have to go to ports and train.<sup>187</sup> The IACC has a very good system involving a series of training sessions.<sup>188</sup> We have an excellent relationship with U.S. Customs. We do regular training almost every month at certain ports.

Now, think about how people come into the United States from a foreign country with their passports. Not every container is opened nor is every piece of luggage searched. To the extent that U.S. Customs opens a container, it's very easy for them to determine counterfeit merchandise because they are given copies of our registered trademarks (or references to our registered trademarks) that tell them where our goods are supposed to come from.

For example, our goods are manufactured in certain factories in China and in Italy. If goods with the Kate Spade trademark come in from Taiwan, the Philippines, or another country that they are not manufactured in, then if U.S. Customs stops that shipment and opens it, it will seize those products and give notice to the importer of record.<sup>189</sup> If the importer doesn't raise his hands and say, "Those are authentic," then the goods are destroyed.<sup>190</sup> This is an incredibly terrific mechanism for getting rid of goods, but it doesn't touch half of them.

MR. KORMAN: Wait. You say half of them?

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<sup>186</sup> See Bruce A. McDonald & Chin Kyung Yoo, *Recording Trademarks, Trade Names and Copyrights with U.S. Customs: Requirements, Procedure and Fees*, Wiley Rein & Fielding LLP, at <http://www.wrf.com/attorney/publications.asp?id=M048381985> (May 9, 2002).

<sup>187</sup> See Peter A. Quinter, *Customs Can Be Valuable Ally Against Counterfeiting*, CORP. LEGAL TIMES, May 1999), available at [http://www.becker-poliakoff.com/publications/article\\_archive/enforcement\\_intellectual\\_property.htm](http://www.becker-poliakoff.com/publications/article_archive/enforcement_intellectual_property.htm) (last visited Apr. 7, 2004).

<sup>188</sup> See Int'l Anti-Counterfeiting Coalition, *IACC TRIPs Training Tool Information*, at [http://www.iacc.org/teamublish/109\\_467\\_1839.cfm](http://www.iacc.org/teamublish/109_467_1839.cfm) (last visited Apr. 7, 2004).

<sup>189</sup> See 19 C.F.R. § 133.21(c) (2004).

<sup>190</sup> See 19 C.F.R. § 133.21(e).

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MS. MCDONALD: No, five percent. That's what U.S. Customs looks at.<sup>191</sup>

MR. KORMAN: I doubt that it's even five percent. But if it were five percent, I would think that is high.

MS. KOLSUN: I meant that broadly, but yes, it's a tiny little percent. In addition, counterfeiters do all sorts of other clever things. For example, "Louis Vuitton" bags come into the country covered in a little sheet.

MS. MCDONALD: It's almost like contact paper.

MS. KOLSUN: So, U.S. Customs wouldn't see the Louis Vuitton pattern when the container came through and the container were opened. And when it arrives at its destination, then the distributor rips off the paper and—*voila!*—there are "Louis Vuitton" purses.

Similarly, if you have ever seen a Kate Spade purse, we have little labels on the outside of our bags that say "Kate Spade New York," like this one. That is one of our distinctive little signs.

Counterfeiters make those tags in the United States, import bags from China that have nothing on them, and then stick the tags on. You probably can peel off the "Kate Spade New York" label with your thumb from any bag in Chinatown.

MS. MCDONALD: One of the biggest problems now is that they only can be arrested if the goods actually say "Kate Spade."<sup>192</sup> So, they make bags that look just like all of the Kate Spade bags—same dimension, same colors, same handle length—but with no marking on them. And then the police can't do anything. Meanwhile, in the guy has a hundred little, teeny, tiny, peel-off

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<sup>191</sup> See U.S. Mission to the European Union, *U.S. Customs Overhauling Trade Under Terrorist Threat*, at <http://www.useu.be/Terrorism/USResponse/Sept0903Bonner-CustomsTerrorism.html> (Sept. 9, 2003). In response to terrorism, during the two years prior to September 2003, the percentage of containers inspected rose from 7.6 percent to 12.1 percent. *Id.*

<sup>192</sup> See 18 U.S.C. § 2320(e)(1)(A)(ii) (2004) (defining a counterfeit mark to be "identical with, or substantially indistinguishable from, a mark registered for those goods or services on the principal register in the United States Patent and Trademark Office"); see also 19 C.F.R. § 133.21(b) (2004) (providing that "[a]ny article of domestic or foreign manufacture imported into the United States bearing a counterfeit trademark shall be seized").

stickers that say “Kate Spade” in his pocket. Then he sticks the sticker on when he sells buyers the bag.

MS. KOLSUN: We have that on camera. We did an interview with NBC a couple of months ago where the reporter, Scott Weinberger, caught that whole act going on at 60th Street and Madison Avenue.<sup>193</sup>

MS. MCDONALD: Right.

MS. KOLSUN: The surprising thing was once the reporter admitted that he was a reporter, a woman who was shopping during the entire scene continued to shop, as if there was nothing wrong.

So, U.S. Customs is a huge friend. Even since 9/11, more containers are being opened.<sup>194</sup>

MS. MCDONALD: They are opening more, but their focus is on weapons of mass destruction.<sup>195</sup> I am sure that there are instances in which U.S. Customs agents are under so much pressure that they’ll open a container up, and when it is a container full of Louis Vuitton fakes, they might just close it up and let it go. This is because are they are thinking, “I’ve got to find something else here that my boss really wants me looking for.”

MR. KORMAN: I think you have been able to detect that this trio has been performing for some time together and can go on indefinitely. This program is supposed to end at a certain time. But we can continue as long as you wish us to and have questions.

There is a question back there. There are several questions.

QUESTIONER: I would like to go back to the point about the IACC.

MR. KORMAN: Your name, please?

QUESTIONER: Virginia Marciano. I’m on the staff of the *Journal*. You were talking about the SUV ads and how they weren’t very effective. I recall an ad campaign in conjunction with

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<sup>193</sup> See *News 4 New York* (NBC television broadcast, Jan. 30, 2003) (on file with *Fordham Intellectual Property, Media & Entertainment Law Journal*).

<sup>194</sup> See *supra* note 191.

<sup>195</sup> See *id.*

the war on drugs. It showed the chain of causation of someone buying drugs from a street dealer, who got his drugs from a supplier, who shot someone—and all this goes to fund terrorism.<sup>196</sup>

Do you think that doing a campaign akin to that would be more effective, especially in trying to educate children that it is theft? When you don't have a safety argument like Oakley does, you could say, "You can't afford a Kate Spade bag, and therefore, you shouldn't have one. They employ many people who design these bags, and there is a reason for this cost of having a luxury good." Do you think that this kind of ad campaign would be any good?

MS. MCDONALD: We have had a lot of discussions about this. The uphill battle that we face is that when an argument is made about drugs, the bottom line is that we're talking about drugs. As a general rule, people think that drugs are bad. Now, we are dealing with a situation where we can't say the same thing—that as a general rule, people think that counterfeit goods are bad. And so, we have to be very careful about the argument that we try to make so that it doesn't have the reverse effect.

We were recently at a meeting in which we were discussing this very topic. The company Clear Channel, which owns a couple of tickers in Times Square and billboards all over the place, basically has offered free space.<sup>197</sup> The City of New York is offering the sides of phone booths and the walls inside some of the subways for advertising.<sup>198</sup> The question is: what message is trying to be conveyed on a five-by-three-foot poster or on a little sheet inside the subway? What is going to be said to people in this little snippet, in a thirty-second sound bite?

One of the people at this meeting actually suggested that what could be shown is the sale of a counterfeit handbag overlaying a picture of the World Trade Center towers falling down—creating a link between the images.

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<sup>196</sup> See Press Release, Office Of National Drug Control Policy, National Youth Anti-drug Media Campaign Links Drugs And Terror: Drug Czar John Walters Issues Call to Action to Keep America's Youth Drug-Free (Feb. 3, 2002), available at <http://usinfo.state.gov/topical/pol/terror/02020501.htm> (last visited Apr. 7, 2004).

<sup>197</sup> See Pete Donohue, *Bright Idea for Subways*, DAILY NEWS (N.Y.), Oct. 13, 2003, at 4.

<sup>198</sup> *Id.*

The first thought I had was, “Are you kidding?” I thought that people would be so upset to see something like that. And the leap of logic that must be taken to get from one to the other is too great that most people won’t make it. It would be an entirely ineffective campaign.

So, we are trying to decide exactly what the message is. Is it health and safety concerns? Is it sweatshop and child labor? Is it the link to terrorism? Is it the failure to pay taxes?

In advertising campaigns, we learned from a PR specialist that public service announcements and ad campaigns are only effective if they tell people something that they already know, just to reinforce it. How do we get people to the point in which they know that this is bad, and then reinforce it? It is a real dilemma for us.

QUESTIONER: I know this may sound little bit simplistic. As when you’re trying to go to educate children, put it on a simple a level. The people who make and sell these bags to you are just like a robber who robs a bank and takes money.

MS. KOLSUN: Children are the best audience of all. Heather and I have spoken to children. I have spoken to children a lot. They get it. Because they are very brand-aware, they can relate to being rewarded for creativity. They really understand the issue because they have a clear sense of right and wrong before they are corrupted. I am a great believer in starting young.

As a practical tip for those of you who are practitioners or students, the other thing that we do on a smaller level is place a whole page describing how counterfeiting hurts us—you know, the simple version for a consumer who cares—on our Web site.<sup>199</sup> In fact, you can check it out at [www.katespade.com](http://www.katespade.com). We have a form that consumers can fill in and send in to report counterfeits.<sup>200</sup> We get a lot of great tips from our loyal customers in places where we

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<sup>199</sup> See Kate Spade, *product questions*, at <http://www.katespade.com/home/index.php?display=1078782290> (last visited Mar. 26, 2004) (stating that “the manufacturers of counterfeit product do not pay taxes, do not pay fair wages or benefits to their employees, frequently utilize child labor, and have been known to fund terrorism and other serious crimes with the profits of counterfeiting”).

<sup>200</sup> This form is available on the Kate Spade Web site at <http://www.katespade.com/home/index.php?display=1078782290> (last visited Apr. 8, 2004).

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don't necessarily have stores or people. So, I will hear about some beauty salon in Missouri from a customer who has seen the bags there. That is very helpful in terms of getting the message out.

MS. MCDONALD: My fifteen-year-old niece just did a presentation on trademark counterfeiting in her economics class because she knows about it from me. The principal thought it was so effective that my niece was asked (along with a couple of other students who did other things) to present it at a school-wide assembly.

About two weeks later, I got such a flurry of information about the sale of counterfeit goods in this particular area because these kids went home and told their parents. And the some parents realized, "Oh my goodness, they sell those at my beauty parlor." We received all this information because a child was educated and then that child educated a bunch of other children, who in turn educated their parents. So, we spend a lot of time at schools.

QUESTIONER: I had one other question. I'm not sure how the vendor licensing scheme specifically works in Manhattan.<sup>201</sup> I know this wouldn't take care of the problem of unlicensed vendors—people selling Rolexes out of open suitcases. But I assume that these licenses are issued by the City of New York or the State of New York.

MS. MCDONALD: Consumer Affairs.<sup>202</sup>

QUESTIONER: Is there some way to get them to be more active in helping you? That would be great.

MS. KOLSUN: We work with them a lot. They come to our Mayor's Midtown Task Force meetings.

MS. MCDONALD: They don't do anything, though.

MS. KOLSUN: They don't do anything. Actually, we even embarrassed them in that NBC piece that I described.<sup>203</sup>

MR. KORMAN: What could they do? Revoke their license?

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<sup>201</sup> See Dep't of Consumer Affairs, *General Vendor (094): License Application Checklist*, at <http://www.nyc.gov/html/dca/html/094.html> (last visited Apr. 8, 2004).

<sup>202</sup> See *id.*

<sup>203</sup> See *supra* note 193.

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MS. MCDONALD: I'll tell you what they could do. We did a test case with them. First, we went to the local police precinct and said, "Here's a vendor who is selling counterfeit goods. Could you do us a favor and arrest this guy three or four times in a row?" And the police precinct did.

Next, we went out and seized his counterfeit goods with a civil seizure order three or four times. All of this was captured on video. We had undercover video of the vendor and kinds of documents. We then went to the Consumer Affairs and said, "We want you to revoke this guy's license."

They said, "Okay. Well, we have to have a hearing."

We said, "Fine."

So, they convened a hearing. Now, let me just point out that the vendor didn't even come to the hearing. But I was there, with my investigators, with the videotape, with a roomful of evidence, and with three police officers that separately testified about the arrest of this individual.

Consumer Affairs told us, "We're going to suspend his license for thirty days, and we think that will solve the problem."

They suspended him, but the guy with his suspended license was on the street the next day. So, we videotaped him and had him arrested again. We went back and said, "His license was under suspension, and you suspension was going to solve the problem. Here he is doing the same thing again. Now will you revoke his license?"

Consumer Affairs replied, "No. Thanks for coming. Bye-bye."

MR. KORMAN: What did you do?

MS. MCDONALD: What could we do?

MR. KORMAN: Mandamus.

MS. MCDONALD: There's no appeals process in the New York City Department of Consumer Affairs. We wrote a letter to the Mayor and told him that the Commissioner of Consumer Affairs wasn't taking this very seriously.

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QUESTIONER: I used to work for a luxury goods company during my summers in college. Right in the middle of midtown, all these luxury stores are around, and there is a flurry of people on every other corner selling fake Kate Spade bags and Louis Vuitton bags. I think that it helps to feed the presumption that because these bags are readily available, it must not be wrong to buy them. To the average person, these vendors wear legitimate-looking licenses that hang around their necks.

MS. MCDONALD: A lot of the licenses are counterfeit, by the way.

MR. KORMAN: I got my law degree earlier than anyone here, other than Ed Kramer perhaps. And except for Barbara, who I notice in the written biographies of this panel got her degree in the year 198.

But at that time there was a remedy, known as mandamus. If an official were not acting the way he should, you went to court and got an order of mandamus, directing him to do his job. That no longer exists apparently.

MS. KOLSUN: I love mandamuses. I think we all would agree that until this issue is on the radar screens of Mayor Bloomberg and President Bush—

I'm afraid to predict that there will have to be some horrible terrorist attack in which that terrorist was connected, something very visible, before everybody wakes up and smells the coffee. Because it's not for want of our having talked about it. Darren can tell you that the IACC is constantly testifying at hearings on various topics related to this issue. It's not that people haven't heard about it. It's just not on the radar screen.

Those of you who were around during the early parts of the Giuliani Administration<sup>204</sup> remember the squeegee guys.<sup>205</sup> Remember the days when the squeegee guys were everywhere?

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<sup>204</sup> Rudolph W. Giuliani was the mayor of New York City from 1993 to 2001. See NYC.gov, *A Biography of Mayor Rudolph W. Giuliani*, at <http://www.nyc.gov/html/rwg/html/bio.html> (last visited Apr. 15, 2004).

<sup>205</sup> Clifford Krauss, *Study Suggests It Is Easy to Banish Squeegee Men*, N.Y. TIMES, Feb. 7, 1994, at B3.



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And then, suddenly, there were no squeegee guys.<sup>206</sup> Why was that? Because Mayor Giuliani was a lunatic about quality of life.<sup>207</sup> I know this because once my company got a ticket for a blocking a fire exit or something, and I sat and listened to all those quality of life hearings all day long: people peeing on the street, people making too much noise, the squeegee guys, anything that was unattractive.

Counterfeiting hasn't reached that level yet. Hearing the outrage of the Times Square Mayor's Committee was very heartening for me. Gerry Schoenfeld,<sup>208</sup> who is the head of the Shubert Foundation,<sup>209</sup> said, "We hate these interfering street vendors. We're God-fearing, tax-paying businesses, and they are blocking our stores." We've been saying this for twenty-five years.

Maybe when bigger people who are more important than us reach the ears of Congress, the Mayor's office, and the people who really control these kinds of things, there will be some progress. We have tried it all. We really have.

MS. MCDONALD: And we keep trying. We constantly caucus together and brainstorm about different ideas. We'll try the same thing over and over again.

There's a new commissioner at Consumer Affairs.<sup>210</sup> I'm about to go back there. The new commissioner used to be the head

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<sup>206</sup> See Matthew Purdy, *In New York, the Handcuffs Are One-Size-Fits-All*, N.Y. TIMES, Aug. 24, 1997, § 1, at 1 (describing the shift of policing focus during Mayor Giuliani's administration to so-called "quality-of-life" crimes and the attendant rise in misdemeanor arrests for activities such as use of squeegees).

<sup>207</sup> See James Traub, *No-Fun City*, N.Y. TIMES, Nov. 4, 2001, § 6 (Magazine), at 36.

<sup>208</sup> Michael Schoenfeld is the chairman of the Shubert Foundation's board of directors. See Shubert Foundation, About Us, *Board of Directors*, at <http://www.shubertfoundation.org/about/board.asp> (last visited Apr. 8, 2004).

<sup>209</sup> The Shubert Foundation provides "provide general operating support to not-for-profit, professional resident theatre and dance companies" and describes its mission as "sustaining and advancing the live performing arts in the United States, with a particular emphasis on theatre and a secondary focus on dance." See Shubert Found., at <http://www.shubertfoundation.org> (last visited Apr. 8, 2004).

<sup>210</sup> Gretchen Dykstra is the commissioner of the Department of Consumer Affairs. See Dep't of Consumer Affairs, *Gretchen Dykstra's Biography*, at <http://www.ci.nyc.ny.us/html/dca/html/bio.html> (last visited Apr. 8, 2004) [hereinafter Dep't of Consumer Affairs, *Gretchen Dykstra*].

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of the Grand Central Partnership.<sup>211</sup> When she was the head of the Grand Central Partnership, one of her biggest missions was to get rid of the vendors of counterfeit goods in her territory. I've had some interesting phone conversations with her because I figured she has some education at least from where we're coming. Maybe she is going to be willing to be a little bit more aggressive.

MS. KOLSUN: We tried to reach Hillary Rodham Clinton through our PR agency, but we haven't had any success yet. Another thing is PR. I'm allowed to talk to the press. IACC talks to the press. A lot of our competitors are not allowed to talk to the press by their PR mechanisms. But I think doing interviews is really key, and more and more companies that have this problem are getting the word out there.

MR. KORMAN: Are there any other questions? In the back.

QUESTIONER: I'm not sure that this is a legal perspective. I think that anyone who makes purchases and reads labels understands that in the past few years China has become the manufacturing powerhouse of the world.<sup>212</sup> Europeans are exporting jobs.<sup>213</sup> Isn't it true that the whole process of globalization undermines intellectual property?

I am going to be brutally frank. This is a situation in which a company that exports jobs to these parts of the world does so not because it is interested in providing the best possible deal for consumers. Rather, it is a quest for the kind of cheap labor and conditions that were prevalent at the dawn of the industrial revolution.<sup>214</sup> This is why companies go abroad.

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<sup>211</sup> See Grand Cent. P'ship, at <http://www.grandcentralpartnership.org/home.asp> (last visited Apr. 8, 2004). According to the Department of Consumer Affairs Web site, Commissioner Dykstra was the founding president of the Times Square Business Improvement District from 1991 to 1998, but has not served on the Grand Central Partnership. See Dep't of Consumer Affairs, *Gretchen Dykstra*, *supra* note 210.

<sup>212</sup> See Steve Lohr, *East Gaining in Technology: China Poses Trade Worries*, N.Y. TIMES, Jan. 13, 2004, at C1.

<sup>213</sup> See, e.g., David Turner, *Reuters Set to Transfer Jobs to India*, FINANCIAL TIMES (London), Aug. 6, 2003, at 3.

<sup>214</sup> See generally THOMAS S. ASHTON, *THE INDUSTRIAL REVOLUTION, 1760-1830* (1998) (describing factors that contributed to the social and economic change embodied in the industrial revolution).

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So, can we really consider that such a corporation is behaving ethically? And isn't this enormous traffic in counterfeit goods the dark side, and perhaps the chickens coming home to roost?

MR. KORMAN: I think that your comments have a lot of merit, but I also think they are the subject of another panel.

MS. KOLSUN: Absolutely. I would say don't shop at Wal-Mart if you feel that way.

MR. KORMAN: I once had an occasion to talk to the people who are trying to protect Recording Industry Association of America in Shanghai. They were not very active. One problem was that the principal place where counterfeit CDs were being made was on a military base.<sup>215</sup> Now, nobody is going to inspect the army in China. What do you do when that is the source of a lot of illegal production?

But that, I think, is beyond the scope of this panel, which has been an excellent panel, and for which I take absolutely no credit. I think the panelists were all excellent. Thank you very much.

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<sup>215</sup> See generally *Facing the Music in China: Pop Piracy*, *ECONOMIST*, Jan. 25, 1995, at 64 (indicating that music piracy networks have ties to the Chinese army).