

Knocking Out Knockoffs



Don't let counterfeiters profit from your properties and products. Know your rights—and how to enforce them.

BY JOSHUA KAUFMAN

Cn every tide that comes in, ships arrive, laden with containers full of goods bound for our shores whose points of origin are thousands of miles away. These ships contain hundreds of thousands of products of every imaginable sort. Many of them are products bought from vendors in the Far East at various trade shows. Unfortunately, a great number of these products are counterfeits. These knockoffs and bootlegs violate the rights of copyright owners, corporations, celebrities, and legitimate businesspeople. The knockoffs come in all shapes and forms, including prints, plates, wall hangings, clothing, Christmas ornaments, bobbleheads, plush toys, and sheets. Millions upon millions of dollars worth of counterfeit knockoffs are sold every year in the American marketplace. No intellectual property owner is immune to the infringement disease.

Legal Standing

The legal underpinnings for rights in licensed products are found either in copyright, trademark, or the right of publicity. If you own the copyright in a work, under copyright law you have the exclusive right to determine how that image is exploited. Similarly, if you are a trademark owner, you have the right to determine how that work is used in the marketplace, and if you are a celebrity, state law allows you to control how others use your name and likeness on commercial products. Using copyright as an example, when an artist creates an artwork, say in the form of a painting, the copyright law provides that the copyright owner has the exclusive right to determine who may copy that work; create derivative works of it in any medium; or make posters, limited-edition prints, postcards, greeting cards, calendars, figurines, screen savers, mouse pads, mugs, or any other licensed products that embody the artwork.

Copyright law also prevents the reproduction of specific elements of a work. For example, an artist paints a scene depicting several people in a living room standing around having drinks and chatting. Then someone else decides to copy a pair of the individuals and a coffee table from the painting and reproduce just those elements in another work. That would be an infringement. It is a misconception to believe the entire work has to be copied, or the work has to be copied identically. The test for copyright infringement is substantial similarity. There are many myths circulating, such as if you change a little bit or 10 percent or change colors, the resulting work is somehow not an

Knockoffs (continued)

infringement. That is wrong. Modest deviations from a work are irrelevant in literary infringement cases as courts have held that the paraphrasing of text is considered a copyright infringement. Therefore, if a visual work is a "paraphrase" of another work, it will be an infringement. A gray area of the law that is still developing deals with infringements based on copying the overall "look and feel" of a work.

Similarly, in publicity cases where people take one's likeness and use it without permission, it is an



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infringement. The likeness does not have to be literal. If the use conjures up the underlining celebrity, that can be enough. There is a famous case in which a robot that did not look like the celebrity was created; however, based on the context, it was clear who the robot was supposed to depict. This non-literal use was found to be a violation of the celebrity's rights of publicity. Therefore, making subtle changes, copying only parts of works, and/or rearranging works do not provide a safe harbor for counterfeiters. Anything that is derived from, adapted from, or based on a work that is protected by copyright, trademark, or the right of publicity that is created without permission is likely to be an infringement. As these counterfeit products are commercial goods, fair use arguments will not be successful. >

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Innocent Explanations

An importer, distributor, or retailer goes to China to a trade show, identifies products it wants, and purchases them without "knowing" these works are unauthorized. They arrive in the U.S. The "innocent party" starts to sell them into its various distribution channels, only to receive a cease-and-desist letter from the lawyer representing the right's holder. The first thing the person who is caught with the infringing goods does is to proclaim innocence. Rationales include: "I bought the products at a legitimate trade show," "It is not my fault," "It is not my problem," or "You should go after the infringer in China." Unfortunately, for this "innocent party," alleged innocence is not a defense. Violations of copyrights, and to a lesser degree in trademark and publicity cases, are strict liability offenses where everybody in the stream of commerce who handles the infringing works are liable, whether they knew, should have known, or were totally innocent. They all—manufacturer, importer, distributor, wholesaler, jobber, and retailer—are liable for damages to the rights' owner. The only person who might not be held liable is the actual end-user consumer who buys the product in a store and puts it on a shelf at home. However, that consumer will be liable if he or she tries to sell that product on eBay or at a flea market or to a friend.

It is the obligation of everyone in the stream of commerce to thoroughly investigate the products they sell, undertake appropriate due diligence, and ascertain the rights of those from whom they acquire the goods. A strong indemnity clause in

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a purchase agreement is imperative. In the event you are found to have acquired counterfeit goods, then contractually you will have the recourse to seek reimbursement and damages from the person or entity from whom you purchased the works.

Monetary Compensation

What is the nature of damages for which infringers can be held liable? Under copyright law, there are two distinct sets of damages. If the copyright owner, prior to the act of infringement, had registered his or her work with the Copyright Office, he or she is entitled to either statutory damages or actual damages. Without such registration, the owner is entitled to only actual damages. Statutory damages encompass attorney fees and an award of up to \$150,000 per infringement, based on the court's discretion. This means if there are 144 mugs with 12 different images that are infringed on, that will be 12 separate infringements. Actual damages are similar in copyright, trademark, and rights of publicity. Generally, they represent the losses of the right's holder, which would represent the royalty he or she could have obtained, and also all the net profits of all of the various infringers in the stream of commerce that are attributable to the infringing activity. Rights' holders, therefore, are entitled to all the profits of the retailer, jobber, distributor, importer, and manufacturer. That is a cumulative sum. The law is set up so that if there is a string of "innocent" parties, the most innocent—the right's holder—is the one to receive the profits and the others are responsible for going back to the person

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from whom they acquired the work and seeking indemnity. Yes, the law is punitive, but the intent is to discourage infringement and encourage due diligence. If infringers were simply able to repay the right's holder the royalty they would have paid if they had entered into a legitimate license, there would be no incentive for parties to act appropriately. The result, ironically, is that infringements can end up being quite lucrative propositions for those whose rights have been infringed upon.

Rights Enforcement

The enforcement process generally goes along the following lines: The right's holder becomes aware of the infringement and acquires samples of the infringing product or identifies them in catalogs, on Websites, etc. He or she then contacts counsel, who analyzes the evidence to ascertain whether an infringement has occurred. The attorney generally sends a "cease-and-desist" letter to the infringer. However, a lawsuit can be filed with no notice if circumstances so dictate. Some cease-and-desist letters simply ask that the infringing activities cease and the infringing goods be destroyed; others seek an appropriate license. The majority, however, not only require the infringing items not be sold and the inventory be destroyed, but an accounting of all sales be made and damages representing the lost profits be paid. Often, the cease-and-desist letter will go to somebody upstream such as the importer or distributor, and the opportunity is offered to it to cover the damage exposure of its customers so they are not sued or informed they have been sold infringing goods. Usually, importers, distributors, and wholesalers



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are anxious not to have their clients involved in legal disputes and cover their customers' potential losses. However, it is up to the right's holder to decide if he or she wants to settle with one party or go after everyone in the stream of commerce. Generally, these are federal cases; lawsuits are filed in Federal Court.

The other avenue of redress for rights' holders is contacting the U.S. Customs Service. If you register your works with Customs, you can attempt to have infringing goods seized at the border. This only works if you are informed as to where and when the goods are entering the country. Customs won't search the millions of tons of goods that come in a day looking for your specific work. If you have a good lead, then working with Customs can be an efficient way to nip the problem at the point of entry.

Several rights' holders in the art industry recently have come together to form the Art Copyright Coalition. The founding members are some of the leading art publishers, artists, and licensors in the field. The ACC's goal is to go after infringers on an industry-wide and unified basis. In comparing notes, these entities have found they are often victims of the same factories abroad, the same importers, distributors, and retailers. Now, if one of them finds out it has been infringed upon, the information is shared among the entire membership, and joint enforcement teams are created where the affected parties go after the infringers on a joint basis. Visit the Art Copyright Coalition's Website, www.artcc.org, for more information. The agency's motto appropriately is "Protecting Art & Creativity. Be the hunter, not the hunted."

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