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## ONE PERSPECTIVE ON ANTI-COUNTERFEITING: FROM T-SHIRTS IN THE BASEMENT TO GLOBAL TRADE

*By Harley I. Lewin\**

In the space allotted me, I shall try my best to give the reader a particular perspective on the growth of counterfeiting and the similar growth of the anti-counterfeiting industry. I may be somewhat better equipped to do this than most simply by reason of having been, to my knowledge, one of a very small group of attorneys who found themselves confronted by issues of fake T-shirts and the like back in about 1979. While the timeline is clear, the events over the years may be less so. I apologize in advance to those who have worked with me for any errors in time or otherwise.

After practicing with a general practice firm in New York City—small, as they were back in the early '70s—I was asked to join three other men my age (27) as the General Counsel to a rock-and-roll booking agency. Being young, single, and “immortal,” I did it and, for the next six years or so, worked with something like 50 percent of the working acts on the road. Aside from doing the performance contracts, we made all kinds of deals for the appearances of the artists, and expanded worldwide. (It was where I cut my teeth in the area that later became licensing and endorsements.) I was one of the road warriors, constantly negotiating between whatever warring factions (artist vs. artist, manager vs. manager, band vs. promoter, promoter vs. town) existed at that moment, which was an experience that was to serve me well in later years.

At some point during the last year I was at the agency, I went in to my friend, who was also the CEO, and told him I was quitting. He responded, “You’re fired. What are you going to do?” I answered that I’d probably take some space in the same building (which I did) and open a solo law office (one of the truly crazy things I’ve done over the years). He asked if I had any clients, to which I said no, I’d just then quit. So we made a deal: He’d become my first client. I opened the Law Offices of Harley I. Lewin, P.C.,

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with a retainer of \$1,000 per month and an overhead of \$3,000 per month. (How I stayed open in those early years is far too complicated and funny to be detailed in this piece. Another time, perhaps.) I opened my office and remained in the entertainment business. Slowly, ever so slowly as I had no capital, the office expanded beyond one client. All the clients at that time were in entertainment of one kind or another. One of them was a merchandising company that would take a license from a band and go on the road with them, selling the “official merchandise” at the band’s venue every night. Almost as fast as that aspect of the music industry grew came those unlicensed individuals who sold copies of the same merchandise (mostly T-shirts) on the street. The manufacturers of the fake shirts would hire kids in each city to sell on the streets. Each night the word would go out to meet a van somewhere and get the shirts. Considering how very tight finances were when an act was on tour, the loss of revenue had significant impact. One of those clients that I had was a merchandising company from Atlanta, Georgia. They were really upset, as they gave large advances to the performers and their sales were getting hurt badly.

There was only one small problem: at that time—that is, in the 1970s—there was no counterfeiting law. Trademarks were the also-rans to patents. No one focused on names, which were then the only form of trademarks being filed. During the same period, to try to stop the fakers on the street when a band was playing, the artists and merchandising companies were considering a city-by-city series of court proceedings; however, everyone decided the costs were prohibitive. The merchandising company was desperate to do something more effective, and asked me to try.

We had noticed that while the players selling in each city were different, the shirts and other materials being sold were the same. We believed there were key unknown persons behind the effort who were likewise the same and who essentially went on tour with the band. It was our position that the place of sale did not matter. The key to the case was the evidence indicating a commonality of effort and identity of persons involved. We decided to ask for nationwide relief based on the tour schedule of the group. We wanted an order we could enforce against those “same” defendants regardless of venue. While it might not seem to be terribly difficult today, it had never been done before; but I did not know that at the time.

It was 1979. I went to court. I asked Judge Robert Sweet, of the U.S. District Court for the Southern District of New York, on behalf of Judas Priest, a fairly well-known rock-and-roll group, for a national John Doe restraining order. Having not had a traditional background—one might say, far from it—I was ignorant of the conventional wisdom of the time—for example,

federal courts did not grant restraining orders against John Does, and never something that had nationwide effect. But ignorance, as they say, is bliss—sometimes, at least. As I noted above, we had done some homework, and we knew there was some sort of organization behind the shirts, as no matter what city we were in the shirts were the same. No one knew where they came from. The sellers were students hired for a day, and they picked up their shirts in a parking lot. That was the second common element. The van that delivered the shirts was the same from city to city.

We made our case that the John Does were the same, that the sales had taken place in the Southern District, and that the court had the authority to give us the relief requested. We asked Judge Sweet to restrain the John Does, wherever found, as well as the sale of the fake shirts. We grounded our position in equity. Federal Rule of Civil Procedure 65 gave the court the right to grant injunctive relief (and still does, thankfully). We argued that the court had inherent power to restrain, *pendente lite*, such acts as it could later restrain permanently, and that the court's power extended to the defendants, assuming it had personal jurisdiction (which it did because the act we had used, Judas Priest, had just played New York City), wherever those defendants might be found. Judge Sweet, to our enormous surprise, gave us what I believe to be the first national John Doe restraining order.

We had our order, but what to do? We started assembling people who could help us enforce the orders at each venue. Eventually we convinced the local law enforcement and/or U.S. marshals that the court in New York had granted us the order to go out and seize T-shirts. And we did, night after night. One can only imagine how hard it was then to go into the local police department or the marshal's office in, say, Kansas City, and convince them they had to enforce the order from a New York court. Again, today it might not sound like much. Back then, we often had to have the marshal call the court in New York to confirm that we were for real.

We had great times, traveling with the artists, putting together enforcement teams and running around the street chasing shirts, etc. We made some new law, and it became quite quickly the action *du jour* adopted by almost every touring band in the United States.

We noticed, however, that we were only putting a finger in the dike, because we were getting an order based on the band's being the plaintiff. Thus, even though we would serve the same persons two nights in a row, because the orders were different we could not enforce contempt. (This became a pattern on a larger scope, e.g., we figure out what the bad guys were doing. We take it apart. They figure out how we learned about them. They make changes in their operations and it starts again.) Again we decided to take a bit

of a risk. After some thought, we came up with the argument that the venue itself ought to be a plaintiff, as it shared in the revenue derived from the sales of authentic goods. We convinced Madison Square Garden to be our plaintiff, went back to court, and asked the court to issue an order based on the venue, not the tour, thus covering all the performers that came into that particular hall. The Garden realized this was a wonderful marketing tool, and after a host of meetings it agreed to let us try. We did it and obtained what became known nationwide as a “venue order,” which soon was adopted by virtually every major performing location in the country. We trained a local investigative group to enforce the order for the Garden and then stepped back. Our job was, essentially, done.

A year or so later, sitting by the side of a swimming pool, I was talking with a friend, who was about to be hired by a shoe company to organize a small apparel division for them, starting with T-shirts, of course. He asked if I could do for him what we were doing for the performers. He thought he would become a target for fakes because the small shoe company, a subsidiary formed in Boston of a United Kingdom parent running shoe company, was beginning to grow. My answer, which was to become one I gave more than once over the years (ignorance and naiveté at play again), was, “I don’t see why not.”

This was a bit different, however. We took the initial budget and shopped around a bit. I went up to visit the client for the first time. Three men who were the heart of the company met us in a World War II Quonset hut. I had a table set up. We had fake shirts from all 50 states. The client walked around the table one time, said, “We have a problem,” and retained us to somehow deal with it. That small company was known as Reebok.

One might say that things expanded then. We went from shirts to sweatshirts and pants, socks, and everything in between. Most of the work we did was in the major flea markets of the United States. San Jose, Chicago, New York, Cherry Hill, Charlotte, Raleigh-Durham, Wilmington, San Diego, San Francisco, Miami, Kansas City, Phoenix, Fargo (yes, Fargo), Seattle, Portland—virtually every major city had flea markets running fake goods. We were a team of select attorneys (four of us), who, together with some great investigators (it took me a long while to find the guys that ultimately became lifelong partners) and the growing assistance of law enforcement, traveled the country to stop what our clients (by now we had more than one) saw as a problem for their brands.

Reebok grew. Almost by accident it had invented what became truly the first aerobic shoe, at a time when the indoor workout craze was just an idea. That shoe was the Freestyle, and it became known for the soft leather and the wrinkles in the toe area (which

I believe was a mistake in the initial product but the public loved them). As Reebok grew, so did its problems with what then were known as “knock-offs.” The existing law was narrow, very traditional, focusing only on names as trademarks. The judges rarely heard cases involving the look of a product, much less side designs, or symbols. There was no dilution law. The legal community at the time believed if you changed the name that was enough to avoid infringement. Customs felt much the same and did not initially stop shoes that looked just like the Freestyle but carried a different name from Reebok.

We had done some work for the garment side of the company, which management liked. They came and asked us to expand our efforts to counter the explosive growth of the knock-offs. We were finding them in every major and minor department store in the country.

The very early REEBOK shoes had a window on the side of the shoe with the word Reebok and a small British flag. It also had a curved split stripe horizontally cut by a larger check vertically. Reebok called it the Stripecheck. The fakes were copies of the same Freestyle shoe but with the name and flag changed. Picture the name of a discount chain store in the little window and some muddled flag design or the logo of the store, and you get the general idea.

As I mentioned, in the early 1980s the general trademark bar did not see stripes and side figures as anything more than ornamental. I learned much later that, before they came to me, Reebok had been told by other trademark lawyers that as long as the name was different the look-alikes were okay. Not knowing the traditional view of the bar (again, that same naiveté at work), I saw no reason why Reebok could not get a trademark registration for its side stripe design.

I went home one night and asked my then wife if she could draw a rendering of the stripe design. (She was an artist.) She did. I used that drawing for the first filing of the stripe design mark for Reebok. The examiner at the U.S. Patent and Trademark Office agreed with us that the Stripecheck design said “Reebok” as loudly as the manufacturer’s name itself, and gave us the registration. That was a game changer.

Now we could go after those department stores, food brands, newspapers, and anyone else that was copying the Freestyle design and stop them based on the side stripe design. There was only one problem: the judiciary. It took years of court hearings—mostly successful, some not—before the real lessons about protecting a brand by reason of a design on the side of a shoe took hold.

More often than not I would appear in federal court, *ex parte*, with a row of shoes on my desk. On the right side were the fakes;

on the left, real shoes, the same models, if possible (it was not always possible because many times the fakes bore no resemblance at all to the real thing, except of course the name of the brand and/or the stripe design). But the judges would still have problems. I had one judge deny me a restraining order in the District Court for the Central District of California (i.e., Los Angeles). She just did not see the copying, even though I had a sample fake product that, other than the color of the stripes, was the same as the authentic. They sat side by side on my table and the judge *still* did not see it. I had an idea and asked the judge to give me a second hearing the following day before entering the order denying my requested relief. That night we scoured Los Angeles and found a genuine REEBOK shoe whose colors were identical to those of the fake we had presented to the court the day before. The next day I presented the new sample authentic shoe to the judge, and I got my order. Although colors had absolutely nothing to do with the marks involved and the court had the registered line drawings in front of it, the judge remonstrated that I should have brought her that shoe in the first place because the colors made the difference. (I'm being nice. Her language was considerably more colorful. My mood was not.) Still, I got my order and went out the following day raiding three flea markets and a half-dozen retailers in the Los Angeles area.

Over the next several years I appeared in almost every major city in the United States and most of the more serious smaller ones. Each time, we had to argue our case from the beginning, explaining the law, its policy, the needs for enforcement, and the need for secrecy, sometimes most vociferously. Each judge tested me and pushed hard; often, I pushed back, sometimes to the point of a having a judge threaten to hold me in contempt . . . or worse.

A judge in Texas kept me waiting three days in the hallway; ultimately he gave me my order, but not before he took years off my life. In the Central District of California, we would wait in a hotel room. A judge in Raleigh refused to see me, said we got the law all wrong, and after a long-winded harangue gave me the order we had drafted, without *any* change. I went to a judge in Cleveland, and when he saw "Temporary Restraining Order" on the eight-inch pile of papers, he dropped them on his desk and said, "I don't sign these." We talked for another hour. We compromised. He would not let me seize but he let me go in, take inventory, and sequester in place. (Later, in the course of the proceedings, we caught the defendant trying to ship the shoes to Mexico. We brought a contempt action. The judge looked down at the defendant and said, "You ruined this case," and put him in jail.) A judge in Phoenix told me, "We don't do things like this without a hearing." I said something under my breath. Thereupon

the judge pointed out his window at the county jail and threatened to “personally walk me across the street.”

Each time, however, I more or less ignored the threat (Julian Huxley, Aldous Huxley’s brother, called it “selective deafness”), and about 95 percent of the time I got my order—sometimes modified, often narrowed, but I got my order.

After a time, the major footwear companies, such as Reebok, Nike, Puma, adidas, Asics, and others, obtained design and/or word marks and joined the fight. Many times in the course of investigations we would find targets faking multiple brands. Almost always the brands got together, and we would file a single action on their collective behalf, which had a great deal more impact than any one suit alone might have had.

At the time we were fighting this battle against the knock-offs, almost overnight we began to see a worldwide explosion in something far more sinister: 100 percent fake REEBOK shoes. Reebok was getting reports from its distributors in almost all its major markets. In addition, U.S. Customs in Los Angeles was beginning to intercept this product by the container load.

First, of course, the Freestyle. Customs was sending me four or five large cartons of seized shoes each week. My office looked like an off-price sale. We worked hard with the Customs people to convince them they had the authority and that they should not resell things that were seized. For a while they were in the counterfeit business, as they saw no reason to not sell the goods to charities, etc. The charities themselves resold the goods to raise money, and we would find them back out on the street. Customs, to its credit, responded. We wound up visiting a number of the local ports and teaching the Customs agents about counterfeiting, especially when it came to the brands we were representing. They became, and, insofar as the United States is concerned, remain, the first line of defense.

The counterfeiting plague spread. Reebok began seeing virtually all of its major models being counterfeited. We began getting reports from almost every country in the world, but, while there were sources in various countries, the biggest culprit was Korea. The biggest transit and market was Mexico, steering goods into the United States or, via Puerto Rico or Miami, into the Americas.

I went from country to country, following the same pattern I had in the United States. In almost every country, the relevant persons—law enforcement, attorneys, judges and politicians—had little knowledge of or appreciation for the harm done by counterfeits. Most of the time I went through the same steps, figuring out how things worked and who would be responsive, and worked to stop the problems. Often I looked outside the traditional trademark bar to find “can do” attorneys locally, who were willing

to buck pressure, corruption, and local culture, to try something new, and to help.

It took me ages to find good investigators. I went through them one after another. Most had backgrounds in law enforcement but lacked creativity. Then I got referred by a friend to two guys in Charlotte, North Carolina, who called themselves Colt Investigations. Jim Perrone and Wayne Grooms turned out to be the perfect team. Both were former police officers with experience in both big and smaller cities. They were well trained in pretext (undercover) work and were hungry to do something different. They and I got together over a meal at the hot table in a local chain restaurant and talked over how to approach the problem. Essentially, the strategy we started with was based in large measure on the lessons the guys had learned in law enforcement. We modeled much of what we did civilly after what they had learned in narcotics and vice. We used a street-driven approach rather than one with big budgets and long horizons. Soon they were joined by other former police officers, with whom they had been friends; one of them, George Arnold, later became one of my dearest friends (alas, he left this world way too soon), as did Butch Mills.

George was the one who, a few years later, best articulated our approach to this kind of work. He and I were talking to possible clients, and they asked us if we had a plan. They were looking for some sort of multipage proposal typically given under such circumstances. George smiled and said, "Sure, we have a plan." Then he and I went back and forth, saying "You tell them" and "No, *you* tell them," until finally the clients got so exasperated that they pleaded, "*Someone* tell us!" to which George replied, simply, "We're going to figure out what the bad guys are doing and stop them." To their credit, after a few beats' pause, the clients got what we were driving at and retained us. While it has humor, the statement recognizes a simple reality. We can speak only for what we know and what we can do or might plan to do. But that is only half the story. In reality, the bad guys write the script. They always have. Our new clients, representing famous watch companies, understood this, and they gave us the room to do some truly creative work. More on that later.

Adopting lessons learned in law enforcement, primarily in anti-narcotics actions, we began to run sophisticated pretext operations, first in the United States and then in Mexico, and after Mexico, throughout Europe as well as in Latin and South America.

Jim or Butch or Wayne or George would pretend to be a major buyer. We would buy goods and work our way up the chain to importers and distributors. Often some of the investigators were joined by undercover officers from U.S. Customs. As luck would have it, we found a great Customs officer in Nogales, Arizona, and

a superb prosecutor in Phoenix, Arizona. Working as a group, we would identify and work to bring in various key individuals who were engaged in the counterfeit goods trade. I would sue them civilly; the U.S. Attorney's Office would go after them criminally.

The team produced fantastic results. The cases we filed in Phoenix and Tucson soon came to the attention of the press and the top of the Customs management. After some hesitation they forcefully joined in the prosecution of those who were charged. As they say, success has a lot of fathers, while failure is an orphan. We had lots of press conferences, which most of the time were attended by those who at first had looked down their noses at us. What strikes me to this day is how the group of us came together: a bunch of former police officers, now in North Carolina; a New York lawyer; a Customs agent, first from New Jersey but then in Nogales, Arizona, via Laredo, Texas; and an Assistant U.S. Attorney, formerly from Chicago but sent to Tucson, Arizona. I honestly do not believe in coincidence, but this group was amazing. I do not think it will ever be repeated or replicated, despite the claims of all who try.

I get ahead of myself. By the early 1980s, it became apparent that what was a trickle of fake shoes had turned into a flood. Reebok had been joined then by Converse and New Balance as clients of our tiny office. Working with Senator Ted Kennedy and a member of his staff, we worked hard and drafted what ultimately became the 1984 Trademark Counterfeiting Act.<sup>1</sup> Senator Kennedy, who was the home state senator for Reebok, gave us a good listen and agreed to help push a bill criminalizing the counterfeiting of trademarks, codifying a statutory procedure that was based on cobbled-together law. The bill granted us the right (assuming we met the evidentiary burden) to conduct a search and seizure for fake goods and documentation related to the actions of the counterfeiters, as that was the only way we could reasonably be assured that we would not win the battle but lose the war. I do not take credit for final authorship of the bill, as to work its way through Congress a bill takes on a lot of fathers; but I take some credit for working on the text and providing some of the energy to move the matter forward. We got it passed.

We had now a serious weapon in place. We had real law, clear and unequivocal. Still, implementation of the new law took some doing. There was considerable resistance at every level—police, prosecution and judicial—while the body of law surrounding the statutes grew. Many judges saw counterfeiting as a victimless

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1. 18 U.S.C. § 2320.

crime. Prosecutors did not want cases that the defendants would fight, and there was no legal precedent. (Eventually the law was amended to increase the penalties, sending a clear message to the prosecutors and judges that Congress wanted attention paid to this matter.) We worked closely to provide the legal briefs and arguments to Assistant U.S. Attorneys around the country, often appearing in civil actions that paralleled the criminal action pending. This was not a “big city” effort. That was yet to come. This was an effort in cities such as Nogales, Cherry Hill, Winston-Salem, Laredo, all over Southern California, and up and down the borders of Mexico with Texas, Arizona, and New Mexico, and along the border with Canada, particularly the area from Seattle to Vancouver, to stem the flow of counterfeits. At the same time, after a fair amount of begging and pleading, the U.S. Customs officers at the main ports as well as Washington, D.C., began to prioritize the interdiction of counterfeit goods. It took considerable doing. There were meetings with the then head of Customs as well as his/her immediate deputies to get everyone on board. I remember large boardrooms (or, some might say, bored rooms); many who attended could say no, but only one could say yes. The first “yes” came from a woman. She flew her own jet fighters, came to Arizona, inspected a tunnel from Mexico that was then discovered being used by drug runners into Nogales, and gave her approval for us to proceed with several rather large undercover operations that we were working on.

We had a target, Byron McLaughlin, who was known in Mexico as *Byron de Tennis*. He specialized in bringing in counterfeit shoes from Korea. After months of work, and a rather elaborate sting operation to bring him out from his complacent lifestyle, Customs arrested Byron McLaughlin. Despite our best objections, the court granted him bail, and Byron jumped from Arizona to Mexico. He made it to France, where we tried to get him extradited and almost succeeded. “Almost” was the operative word. Marshals went to get him, but by then he had become an “upstanding resident” of southern France, and they were rebuffed. He went to the Ivory Coast. We got him arrested there as well, but apparently he bribed his way out with a watch off his wrist. (I have always wondered if it was real.) Later the entire story became an episode of a television series called *U.S. Customs Classified*, featuring notorious Customs cases. It was strange watching others play yourself.

Our second big case in the area involved a family that got up in the morning and drove south from San Diego’s well-off suburbs to Tijuana, where, at the time, they controlled most of the stores selling fakes along the border to sailors stationed at the U.S. Naval Base in San Diego, as well as to U.S. tourists seeking something of a thrill when they crossed the border. We worked with a special

group of police from Mexico City, as at the time those in Tijuana were not reliable. My investigator was the “big buyer.” The head of the police unit was his limo driver. Undercover and pretext investigations were done in both the United States and Mexico. We also had to meet with certain law enforcement officers in Mexico City and politicians to receive their informal approval. At the time, trademark protection was virtually unheard of in Mexico. Finally, when all was set, arrests took place in Tijuana offices, as well as in a large warehouse outside the city.

We had a dinner at a local Denny’s to talk over the case. I asked where one of the lead officers, Pablo, was. The Chief told me Pablo was on the side of the road “interviewing” the defendants, who were “expected to confess.” We went out to a warehouse, and it was raided. It was huge, almost 50 yards long. There were three rows of boxes. One on the left, holding some genuine branded sports shoes. One on the right, holding thousands of fakes of the same shoes. One in the center, empty, where some genuine and mostly fake shoes were mixed and shipped off. Despite leaving police surrounding the building all night long, when we arrived in the morning we found that almost 20 percent of the inventory had somehow disappeared that night.

During the night, almost immediately after the arrests, the main defendant was hustled into one of the SUVs we were riding around in and was driven at high speed directly to the Tijuana airport. We drove onto the tarmac, where a private jet dropped out of the sky. The police put the defendant on the plane, and he was gone. For a year no one knew where he was taken. (No habeas corpus in Mexico at that time.) Ultimately the defendants received sentences in Mexico City, but somehow they secretly appealed to the courts in Tijuana. Not one word about the appeal was passed to any government authorities. Suddenly, the conviction was reversed and the defendants were back home in Southern California. Not three weeks later the same defendants were arrested in the United States by U.S. Customs agents. Simultaneously, we sued them civilly for a host of shoe companies. The resolution on all counts was favorable for the shoe companies. I found out some years later that, to put it mildly, I was being watched for in Tijuana.

Each of those two cases set some unique law, worth describing in detail.

In *Reebok v. McLaughlin*,<sup>2</sup> the defendant, Byron McLaughlin, was engaged in monthly shipments of fake shoes from Korea to one of several ports in Mexico. He lived in Coronado, California, a well-to-do community, and was married to a beautiful woman. Life was good. He would collect 50 percent of the fees for counterfeit shoes from his buyers in advance, the balance on delivery. Trucks would wait at the piers to take the shoes away the minute they were off-loaded. We took a call from a U.S. Customs agent in Nogales, Arizona, who had stopped some suspect VANS branded shoes coming across the border into the United States. That was how agent Mike Woodworth and I became fast friends. Mike was the agent in charge on this case. He started it by stopping some VANS shoes from coming back into the United States and called VANS wanting to know if they were genuine. VANS referred him to me. They were fake shoes from Korea. We had been looking at the same product in Mexico City. Mike and I exchanged details and off we went. Mike worked tirelessly with our investigators to formulate an approach that would bring McLaughlin down. Eventually, after a number of pretext meetings, agents raided his premises in both the United States and Mexico and McLaughlin was arrested. He later jumped bail and fled, as I described above.

In the course of the case, McLaughlin hired serious and credible counsel in San Diego. They defended on the basis that the Lanham Act did not apply to McLaughlin's actions in Mexico, arguing that only Mexican law was controlling. We argued that the court did have the power to apply the Lanham Act because (a) it had personal jurisdiction over McLaughlin and a court could, having such jurisdiction over a citizen, mandate conduct regardless of the citizen's locale and (b) McLaughlin's actions directly affected the foreign commerce of the United States and thus were subject to Congress's jurisdiction. We argued that under such conditions the court could and should apply the Lanham Act, particularly because we were able to show at least some of McLaughlin's business activities (ordering from Korea) took place from his home in swanky Coronado. The court agreed and gave us our requested relief. The matter went up on appeal, and the Ninth Circuit also agreed with the extraterritorial application of the Lanham Act under these circumstances. Only later, on reading a discussion of the case in a journal published by a Dutch law firm, did I realize the scope and effect of the law we had made. I'm told

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2. *Reebok Int'l Ltd. v. McLaughlin*, 827 F. Supp. 622 (S.D. Cal. 1993), *rev'd*, 49 F.3d 1387 (9th Cir. 1995), *cert. denied*, 516 U.S. 908 (1995).

this case is now in the textbooks used in law schools. It is something I'm a bit proud of.

The second case, *Reebok v. Marnatech*,<sup>3</sup> involved a gentleman by the name of Nathan Betech, as well as two of his brothers. Nathan lived in the San Diego area and, as we learned, “lived large”—private school for the kids, housekeepers, fancy cars, a large, heavily mortgaged house, etc., etc. Nathan would get up each morning, drive down to Tijuana, and do his business. He was one of the then kings of counterfeit goods sold along the Avenue de la Revolution, the street purposely kept a bit seedy to attract tourists from the San Diego area and elsewhere to Tijuana. Just about everything sold on the street at the time was illegal and/or illicit. It was a bit funny, too, as the moment you went further into the city it turned quite beautiful, with large, tree-lined boulevards.

The pretext operation was as I have described above, with my investigator being the Mr. Big and the chief of the Special Apprehensions Section (or so I believe it was called) of the Federal Police in Mexico City acting as his driver. That way we had our investigator able to testify in both civil and criminal trials, if they came to pass, and the law enforcement officer able to make probable cause per Mexican Law. I remember the day of the arrests in Tijuana because I spent six hours in a large SUV, sitting in the back, with no seats but surrounded by rifles and automatic weapons of all kinds, in 110-degree heat. The Mexican soldiers with me thought this hysterically funny. The raids took place, arrests of Nathan and others were made, and Nathan was spirited that night by jet to an unknown location (jail in Mexico City). It was he who later had a secret appeal and was turned loose to return to the United States.

In the meantime, we had filed a civil action in the Southern District of California against Marnatech and the individuals concerned. For a number of years we had been winning lawsuits but coming up empty on finding assets to pay the judgments. While a traditional trial wound its way through the courts the defendants would move their money and other assets into untouchable jurisdictions. We decided to try something new. We asked the court for a pre-judgment restraint of assets *pendente lite*. We were unable to find any law on the subject insofar as it related to trademark or other IP cases. Nonetheless, we argued that as the court, under the Lanham Act, had the power to order an accounting at the end of trial, it had the power in equity to

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3. *Reebok Int'l Ltd. v. Marmatech Enters., Inc.*, 737 F. Supp. 1515 (S.D. Cal. 1989), *aff'd*, 970 F.2d 552 (9th Cir. 1992).

preserve the remedy during trial, to prevent the court's final judgment from becoming moot. We argued that this preservation should extend to the assets over which the court would possibly order an accounting at the end of the day. We formulated an even-handed approach, trying to reach only those assets that might be subject to the court's later order, and not those that were unrelated.

I remember the court's reaction quite clearly, as it was only a few days before Christmas. We had appeared before Judge Thompson, then Chief Judge in the Southern District of California. Judge Thompson took our papers, and we went back to our hotel to wait on his decision. His clerk called a day later and asked us to come back to court, as Judge Thompson wanted to go on the record with his findings. He walked out in his robes and approached the bench. While standing he turned to me and said, "Well, Mr. Lewin, you were right. We could not find any prior law on this subject either." I thought for sure he was going to turn me down. But then, with something of a sharp look in his eye, he said, "But, that's what we're here for," and gave me the relief requested. I was elated. The case was a matter of first impression as to pre-judgment restraint of assets in a trademark matter. Needless to say, it was appealed. I had the privilege of arguing the appeal, and, after some sharp discussion, the panel unanimously affirmed the lower court's decision. This case, I'm told, has also made its way into the textbooks.

Similar tales could be told in cases I conducted in almost all the major and many of the less-than-major countries of the world. From memory, we worked in Japan, Korea, Taiwan, Spain, Philippines, Venezuela, Bolivia, Argentina, Chile, Peru, Jamaica, Sweden, France, England, Ireland, Norway, Denmark, Germany, Russia, India, Indonesia, Singapore, Malaysia, Algeria, and just about any other country in which our clients had markets. I joke frequently about those years.

Eventually we focused on Korea, which at the time was the center of the counterfeit world, at least in terms of footwear. Korea for years was the country, together with the United States, that produced most of the athletic and sporting footwear sold around the world. Our clients insisted we focus on Korea, even though Korea then, as a matter of government policy, was paying lip service to IP protection.

Not knowing otherwise, we said we would try. Again, ignorance played a critical role; if I had known in advance what I'd agreed to try and do, I probably would have thought myself playing with something less than a full deck of cards. For the next six years, Korea occupied a critical part of my life. Back and forth, New York to Seoul to Pusan to Washington, D.C., to New York again.

The government in Seoul was reluctant to prosecute on trademark charges. We had to deal directly with law enforcement in Pusan, the city near which most of the fake factories were installed (they were near the factories where Reebok, Converse, Nike, and others had the genuine products made, so it was easy to “borrow” molds, technology, labels, piece goods, and the like). Our clients were willing to try some new ideas to get the factories closed and to spend the money in such efforts. We were able, through actions in the United States, Mexico, and other countries, to identify certain key individuals who were the major forces behind the manufacture of fake sports shoes in Korea. In addition, when we shopped the E Tae Won in Seoul (a major street with bars, nightclubs, and lots of small shops, built on the business of the American soldiers then stationed at a large base just outside of Seoul), we found over 70 separate locations selling fake sports shoes and apparel, mostly of our clients.

Several things convinced us to focus on certain individuals. First, although there was a large number of individual retailers selling the goods, the goods themselves were virtually identical, leaving us to believe the suppliers were limited. Second, there was a “floor” price below which the retailers would not go, no matter how hard you negotiated. Clearly the market was controlled. Our investigations led us to Pusan and certain parties there.

We ran two different types of operations at that time. One was to find the factories, which were highly covert, and then, after a considerable amount of begging and pleading, get the local police to go out and do raids. Civil actions were useless. The problem there was my investigators did not speak Korean, and the streets are not marked, making retracing steps almost impossible. We did it, but only after a lot of late night meetings in hotel rooms in Pusan with maps and some tradecraft that I will not divulge here. Butch Mills and his colleagues were stellar map makers, and we developed significant relations with law enforcement to get the job done.

The second type of operation we ran developed after we realized that the laws then in effect in Korea were such that the major individuals involved in the fakes were almost entirely untouchable. The laws were limited at best and rarely enforced. The big players walked away from any efforts to apprehend and prosecute them. We decided if we could not get them imprisoned at home, we would try and get them over to the United States, as it was the United States market that was being so dramatically affected. To say this was not hard work would be false, but to say that it was not fun would be equally untrue.

We did everything. My major investigators applied all their skills, which were considerable. We invited one guy to Hawaii, telling him we were buying a big hotel. The rooms were wired, and

U.S. Customs made arrests. We invited another guy to Lubbock, Texas, saying we had bought some goods and were now ready to make the big order. (He went into the general population in Lubbock, there being no federal jail at the time, and when we visited with him the next day, he'd been shaved bald, allegedly for lice.) We had golf tournaments, weddings, lottery winners, and fishing trips, all where we would supply the tickets to get these various individuals into the United States. We ran the pretext operations in Texas, California, Las Vegas, Hawaii, Tucson, Phoenix, Laredo, and Miami. Each time we were able to pull off the pretext and get the (sometimes reluctant) cooperation of the courts. We liked Hawaii because the courts there were familiar with foreigner prosecutions and almost immediately on an arrest would impound the defendant's passport pending resolution. This prevented the McLaughlin-type bail jump fiasco that I described above.

The lessons learned in these efforts in the 1980s were many, and I applied them in almost every case in all 100 or so countries in which we ran pretexts and worked with law enforcement to get things done. Not always was trademark law the argument applied. Sometimes we used smuggling laws; sometimes, tax evasion. In fact, we used just about anything that the authorities would listen to and that our local counsel would indicate would resonate politically. Finding local counsel that was willing to think outside traditional lines and often buck local pressure and corruption meant finding and assembling a very special worldwide team of professionals.

In the late 1970s and into the 1980s, the 800-pound gorilla known as China began to undergo a fundamental transformation, from an almost feudal government and citizenry to one that is economically and politically competitive around the world.

We watched as the factory owners in Korea and Taiwan, under pressure from the brands to drive costs lower and lower and under pressure from labor and government to increase workers' wages and benefits, slowly but almost inevitably moved the factory operations to China, for the most part the Guangzhou area of Guangdong province. As the know-how and investment grew, so did the presence of counterfeits. China today accounts for over 80 percent of the counterfeit goods seized annually by U.S. Customs, whose records are the most reliable. The EU has similar tallies.

We had been active in the area, of course, being busy with Korea and, to some degree, Japan, Taiwan, Philippines, Thailand, Malaysia, and Indonesia (Bandung, not Jakarta). Although each country was different and had different laws and *very* different approaches to law enforcement, the one common thing was that IP protection was in its infancy. As such, whenever we sought to do something, we had to educate not only the local police (we rarely

brought civil actions, as there was far too much political influence and corruption to justify the cost) but also the judiciary and, often, local counsel, as we needed to focus on delivery of services, not reputations as good trademark filers. To this day, our local counsel often are not the counsel that foreign companies usually use for trademark work. Virtually all of them remain close personal friends today. I suspect it has something to do with sharing the same foxhole.

Korea was changing. As Korea itself began to develop solid industries, those industries' brands began to suffer counterfeiting, and cooperation began to really take shape. Slowly, we made headway in Korea, using the good offices of the criminal prosecutors and wonderful local counsel, Jay K. Lee, who helped me understand the political and cultural ebb and flow at the time. We successfully initiated local covert actions and Jay liaised brilliantly with the local prosecutors. He also helped me run interference with the federal bureaucracy. Korea today is vastly different and relatively straightforward in its understanding and protection of trademark and other IP rights.

During the 1980s, our efforts expanded worldwide. We now had a group of companies engaged in different industries—footwear, apparel, handbags, jewelry, automotive, construction, and pharmaceuticals—that began to see fakes in a host of countries. Faced with the same absence of law and knowledge as to harm on the part of the local governments and populations, our ability to interdict the flow of counterfeit goods in those countries was almost impossible. After years of traveling from country to country, meeting with officials, law enforcement, local counsel, and local investigators, slowly but surely we ensured that the lessons we learned in one country were transmitted to others, albeit with changes to meet local culture, politics, issues of corruption, and the like. By then I was logging 200,000 miles a year in airplanes. I used to joke that where most people who visited Jamaica lounged in Ocho Rios or Negril, I wound up in downtown Kingston, which at the time was a pretty violent place. It was the same for me in Mexico, Venezuela, Indonesia, China, Korea, Japan, Philippines, Taiwan, Sri Lanka, India, Russia, Cyprus, Israel, or Sweden. If you were to name a country, probably I would just have been there or was just about to go.

As much as I was learning about law and culture around the world (I pride myself today in being able to counsel clients worldwide without resort to local counsel, at least most of the time), I was learning as much if not more from the key investigators we worked with and from the team of lawyers we had assembled in our law firm in New York. I credit the investigators with teaching me key tradecraft generally not open to attorneys, even to this day. We applied lessons they had learned while

working solo, on the streets, undercover, in narcotics, vice, or other similar departments in New York, Charlotte, Miami, Chicago, and Los Angeles. While I have nothing against big law-enforcement agencies, they were trained to work in teams, with big budgets. Men and women who had backgrounds in narcotics and vice were trained to work alone, on limited budgets with tight time and evidentiary restrictions. Today they remain my preference. Customs on a federal level was for me the home of the best agents, again because they were limited in number, highly focused, and far less political than some of the others. Surprisingly, agents from the U.S. Postal Inspection Service were almost equally cooperative and clever. They were, however, so limited in number that we sometimes could not get the time needed, as their calendars were already overburdened.

Our focus was and remains always the same: to use unique means that make financial sense to obtain the desired goal for the client. We go into an area or situation with no preconceptions about how it works or what will happen, preferring to listen, learn, accumulate intelligence, analyze our alternatives, and then act. It is the mantra I preach when I teach anti-counterfeiting today. (One of my pleasures these days is to lecture occasionally before companies' sales and manufacturing teams, helping in-house counsel to get everyone on the same page. Another pleasure is to teach a bit of what I've learned to those attending various law schools. My greatest pleasure, aside from achieving a desired goal for a client, is to see those who were my associates over the years in our now-closed boutique go on to achieve notoriety and success as partners in significant law firms around the United States and elsewhere. I cannot give them enough credit for the success of our collective endeavors.)

Having had some success in dealing with difficult situations, cultural reluctance, political pressures, and just plain old-fashioned corruption, the clients came to us and said it was time we turned our attention to China. What they said was, simply, "Can you do something?" Again, both ignorance and naiveté took hold when I answered, "Why not?"

I made my first visit to China in 1982, and I quickly found out "why not." I can assure you, despite going four or five times a year since then, I still cannot pretend to know China well enough to claim a true understanding of the way things work. My limited knowledge has come through time, experience, and very good friends in the country. I still raise what are probably seen as truly silly questions, but over time and through a fair amount of trial and error, I have come to have a fair idea of why things happen the way they do.

Our earliest efforts in China were for our footwear clients, particularly New Balance, which had asked us to do a bit of work

for them. (We were introduced by counsel for Converse, Jack Green, who remains today a good friend.) John Larsen of New Balance asked me to come up and meet with his China production team and, to use his words, “pick holes in the system.” It was an extraordinarily uncomfortable meeting for me, sitting with a bunch of really knowledgeable “China hands” and trying to see if there were flaws in their process. I noticed some things (lessons learned from the wars fought for brands in Taiwan, Korea, and Japan), and made a few suggestions. A comfort level was reached, and we were asked to work with them on brand matters around the world. We dove into a serious problem.

New Balance, at the time, had to deal with counterfeit goods in over 50 countries. I am most proud to have been, in part, responsible for reducing that number to the point where today such goods surface only in the occasional country (outside of China, of course). Mr. Larsen and, later, Mr. Ed Haddad were fantastic clients and totally supportive of the efforts. New Balance became known for its zero-tolerance attitude toward counterfeiting. As virtually all of the fakes were coming from China (aside from small home-grown counterfeiting operations that cropped up from time to time in various countries), our efforts, after cleaning up the United States, Europe, and much of South America, focused on China.

At that time, and today, the methodology employed in China was fairly straightforward. Investigators go out, find factories, and send back sighting reports. If the reports are good, raids are ordered through an administrative agency known as the Administration for Industry and Commerce (AIC). Equally cooperative but more limited in resources is the QTSB, which loosely translated equates to the Quality Trading Standards Bureau. The raids are pretty much a fixed-price affair. The officers take the fake goods, and that unfortunately is where it stops. Documents are almost never obtained, ringleaders never identified, and assets, outside the counterfeit goods, are never taken. Criminal prosecution remains almost impossible (although that may be changing), and back then, civil litigation was unheard of in the trademark area. So, we had investigators and did the usual factory raids. The problem, of course, is there is no recidivism penalty, at least so far, in China. Thus, a raid begins and ends right there. The penalties, if any, are based only on what is caught that day, without outside evidence entering into the picture. Undercover work, beyond merely reporting a factory making fakes, is frowned upon to a large degree, being considered an exclusive province of the police. Finding clever undercover persons of Chinese descent is really difficult as there are strong pressures from family and friends to look the other way, even when privately employed. What this means is that a factory can

and does resume making fakes within hours of being raided. It always reminds me of the child's game "Whac-a-Mole": each time you hit one, another pops up. As frustrating an experience as it is for the brands, it remains a necessarily evil, given the need to limit the flow of fake goods into the market.

With New Balance, however, something happened that changed the entire picture in China. They had a fight with their then Chinese distributor. He had been caught by New Balance, and by us, shipping alleged "overages" that were unauthorized. He was shipping to Japan and elsewhere, encroaching on other distributors' territories. He was terminated by New Balance but, as we soon discovered, kept right on making New Balance shoes, albeit now they were entirely fakes. The usual authorities did some raids, and the distributor fought back, arguing he had a license in perpetuity, royalty free, by reason of certain documents given to him by New Balance early in their relationship. It was completely bizarre, as the documents the distributor offered were a confirmation of authority to make products and had been given to a factory during the time the factory was making genuine products for New Balance. In court proceedings we brought in Shenzhen, however, the court read the document (a one-page, two-paragraph confirmation) as a royalty-free license in perpetuity from New Balance to this factory, which was, in reality, owned by the former distributor. We had to appeal. The appeal was taken to the courts in Guangzhou, and matters turned even stranger. After the argument, I met with the judge to answer questions he had. Then . . . nothing. Months went by and no decision was forthcoming.

I decided to ask for help. I visited with the U.S. Trade Representative and explained our situation. Normally, government agencies do not take on private disputes. I explained, however, that the statutes in China at that time provided for a decision within three months, and it was going on nine. I asked the USTR to inquire as to why a decision was not timely, not to seek to persuade anyone of the outcome.

It took some time. We wrote up the case. Then we had to meet with persons from the State Department, the Commerce Department, and Justice. Ultimately it was the State Department personnel that carried the ball on this one. They saw the issue as an overall policy issue justifying government to government discussion. All the other agencies had to sign off that what we were planning did not run afoul of their own agendas. Everyone agreed, finally, we could move forward. A brief was prepared and sent by State to our consulate in Beijing. They in turn contacted their counterparts at MOFCOM, now known as MOFTEC, China's administrative agency for commerce and various other matters. The head of the agency was then considered the most powerful woman in the world. (She has since retired.) After some time, the

inquiry landed on her desk. I am told she made inquiry of various parties, who then in turn made further inquiry down the line. About two years after the case was argued and submitted, we finally got our opinion. The lower court was reversed. We had won! It took a great client and enormous patience to see it through. It affected everyone's view of the use of civil litigation as a tool. More and more brands are willing to engage in such litigation as a tool against counterfeiting, as these days the system in China is far more predictable. In those days, civil litigation was an absolute crap shoot. This one made news throughout the country and established New Balance as a company that would fight for what it believed was right. That meant a lot in China. It still does.

Since then, hardly a few months go by without me going to China and putting together a civil or administrative case. Now, as I address briefly below, it is focused on Internet issues and China remains the sorest spot of counterfeiting in the world. Nevertheless, as the New Balance case (and others brought by New Balance and other brands) illustrates, things of real merit can be done. It is often said that China will test you first, long and hard, but if you stick it out, you will prevail. There is enormous truth to this. Unfortunately, many of those affected have neither the resources nor the patience to deal with the problem, even though ultimately it may and often does bring them to their knees.

At the time that the counterfeiting war was centralizing in China, we went through another major game changer in the United States. We were then acting for the Richemont group of companies, which included Cartier and other significant brands. Our charge was limited to the United States, with a particular focus on Canal Street in New York.

George (my investigator) and I worked a series of cases around the country. As we went through the process, we kept coming back to certain key names in New York. In those days, no ordering was direct. The Internet was in its infancy. By contrast with today, when you can type "replica watch" on Google and get over a million hits, sellers and sources were highly secretive.

George and several of his key investigators worked Canal Street. They formulated and implemented a buying process that let us track the money they used back through the distribution system used by the bad guys. Still, we were unable to find the key. Sometimes cases resemble a package of cigarettes. You work and work to find the little red string, but when you finally pull it, the whole thing unravels. Our first big case was much like that.

Sitting on the floor of my office, I was sifting through documents, evidence we had obtained from a series of ten cases we had filed in the major cities of the United States. Then it struck me. The common element among all the sellers was the need to ship. They were all using the same three shippers, which were

located in New York City. I figured those shippers had to have documents that would enable us to identify the higher-level parties involved.

George and his team spent days sitting in and on the shipping companies. When we had enough evidence that the shippers were more than mere conduits but in fact active participants, we went to court, got our orders, and did our raids. What we did not know was that one of the shipping companies maintained a basement that spanned three buildings—illegally constructed, of course. When we went into what looked like a small UPS office, we found a door, went downstairs, and wound up taking out more than 75,000 watches!

More important, the documents (over 85,000 of them) were a mother lode of information. George and his team would come up to New York, sit in one of my small offices, drink coffee, eat donuts, and pore through the documents, putting together the shell companies, the conduits for cash, the money-laundering operations, and so forth. We went back to court, amended our order more than once, and continued our raids.

Months later, one of my paralegals was out serving what we thought to be a place that repaired the fake watches. I got a call. The paralegal said I should come down right away. This place was in a seventh-floor office in a small building in the West 30s, not downtown on or near Canal Street. A very unusual location for what was going on as we soon discovered.

I went down there. In the little office (about the size of small candy store), the two-man repair team was sitting and hunched over a work table with watch pieces strewn about. The paralegal said there was another room storing “some” watches according to the two workmen. We got a locksmith and forced it open. What we saw was absolutely mind-boggling: Shelves upon shelves of thousands and thousands of individual plastic-wrapped watches. It took four men, working eight hours a day for four days, to remove all the watches we found. In total, more than 250,000 watches were removed. (Swiss experts who came over to view the cache said there were over 125 different brands involved.)

In the context of the case we could not seize the brands that were not officially the plaintiffs’. My client was insistent we not let any of the product get away. I went back to the court and asked for the right to restrain the remaining product as “assets.” Bless the judge who “gets it.” We got our relief over the telephone and acted instantly to remove every single item in the rooms. Shelves that once had bent under the weight of the product were now bare. Smiles abounded.

Later in the same case we made another major discovery. For years we had heard that there was a “Korean banker” somewhere in mid-town that would cash the checks of the counterfeit retailers.

(The retailers would often ship c.o.d. to customers who would then make checks payable to “Robin Hood” or “Zorro” or sometimes merely “AAA.” No real bank would take these but this one would.) The investigators called me from the street with another one of “Harley, you’re just not going to believe this.”

The store front, located way West in New York’s mid-30s, was an old seller of industrial sewing machines. In the window were several machines gathering dust. It was something from a Charles Dickens novel. BUT, way in the back of this store was a stairway going upstairs. We went up and found a door electronically controlled. We got it opened and found four people counting cash. They were, in fact, licensed as a bank by the states of New York and New Jersey, but virtually their entire business was to launder the cash of the counterfeiters. We took almost one million in cash from the premises and more later. Ultimately we closed them down. The lawyers in our office worked day and night to make this happen. We were elated. That night I took the whole office out to a local restaurant, and we closed the bar.

The case went on for years. We took judgments in excess of \$650 million and, unlike so many, executed on them. We found assets, took depositions, and, I believe, forever changed the game. Watch inventory of any size is no longer kept in the United States. Fakes still come in, of course, and we’re still working the cases, but the real money and the serious inventory remain offshore.

As often is the case, the defendants figured out how they were caught and then changed their operations to avoid detection in the future. Simultaneously the growth of the Internet accelerated fundamental change in the business of counterfeits today. The Internet has *really* and forever altered the landscape of counterfeiting, and therefore, of course, of anti-counterfeiting as well.

I began to see the difference as soon as the Internet became the vehicle for sales to the public. Everything had changed, and it continues to change—at breakneck speed.

I had been speaking around the world, trying to educate people, governments, law enforcement, and other groups about counterfeiting. Everyone began to pay attention. There are lots of numbers/statistics available today, whereas a decade ago little was compiled and even less understood.

Not long ago, I spoke in front of the combined houses of congress in Buenos Aires, Argentina. It was in honor of a friend of mine who is my counsel there and who had written a textbook on intellectual property protection. The release was done in the congress itself. I tried to personalize the issue of counterfeiting, speaking about how the money is directed away from civil works or government-funded institutions such as education, law enforcement, fire departments, and the like. When I finished,

several appellate judges who had attended approached me, saying they had no idea about the real harm that was being done by counterfeiters. It had all been an abstraction.

Various countries began to act individually, passing new laws criminalizing counterfeiting, making penalties stiffer, trying to educate their citizens about the scourge of illegal trafficking and the damage it did and continues to do. About 30 years ago, China and most of the major countries of the world signed on to WIPO. Since then, implementing laws have been in place, acting to protect, on an increasing basis, brands, ideas, copyrights, patents, and trade design from unauthorized copying. Although each country has its own way of doing things (and some continue to do nothing), no longer am I a lone voice. A worldwide bar, engaged in the protection of brands and ideas, has emerged and has grown rapidly.

I recall attending the Annual Meeting of what was then the United States Trademark Association (now the International Trademark Association). I was one of the early chairmen of the newly formed Anti-Counterfeiting Committee. The Association was unsure that anti-counterfeiting was a role it ought to play. No longer is that true. When I became involved in the USTA, there were perhaps fewer than 750 lawyers attending the Annual Meeting. These days, INTA's Annual Meeting attracts more than 8,000 participants from virtually every country of the world. Counterfeiting and measures to combat it have become a huge concern. In large measure, this is a result of the juxtaposition of the Internet and China.

To be sure, search and seizure in many countries is almost routine now. Banks no longer are as secretive as they once were. Inventories on hand have diminished. When public health is involved, law enforcement moves swiftly to deal with the problems. (Think of China and the tainted-milk-formula scandal of several years ago.)

Over the past several decades, countries have acted individually to toughen their laws against counterfeiting. They have also, from time to time, joined together to implement more uniform global policing. Agreements such as TRIPS or the now-pending ACTA, or organizations such as WIPO, have added strong weight to the efforts to deal with counterfeiting.

While these efforts continue, those engaged in dealing in fake goods have remained a step ahead, using the Internet to make borders disappear and finding a safe haven in China, not because the Chinese government itself condones counterfeiting as much as because of the unusual marriage of a difficult culture, a need to keep people employed, the absence of a research and development base, and a brand-new, little-understood set of laws. It is not the laws as written that pose the problem in China; the laws are far

more modern than those of most countries. Rather, the problem lies in the implementation of the laws, where all the described cross-currents come together.

Certain key events have transformed the business of counterfeiting from what was essentially a mom and pop operation (say, one machine making shoes or printing shirts in the basement of an apartment building in Pusan, Korea) to a multinational, highly organized criminal endeavor. And, as discussed below, even the highly organized gangs have themselves changed dramatically over the past five years.

Perhaps the best known change was the movement of industry from the United States, the EU, and Korea into China. During the later 1980s and in the 1990s, China essentially became the world's factory. As one might expect, along with genuine products' being made and factories' being built, together with the transfer of know-how and research and development, came the emergence of China as the single largest source of counterfeit goods. Everything from software to apparel, from guns to car brakes, from drugs to food goods is counterfeited in China.

Although China's intellectual property laws, as written, are some of the best and most modern in the world, a number of factors came together to cause China to explode as the origin of the world's fakes. While there will always be home-grown efforts in various countries to produce counterfeit goods (e.g., footwear in Brazil, handbags in Argentina), the total effort of all other countries combined pales when compared with the flow of fakes from China. The reasons are complex.

China's culture for many years saw copying as a compliment rather than a negative. For years before the enlightened change where a form of managed socialism became the form of China's government, no one owned anything. Suddenly, not only could one own a tangible asset, such as land, or a house, but also letters, words, designs, and creations demanded protection. To this day, the effort at educating the public regarding protection against copying has yet to really filter down to those who make goods. As in many other countries, the production of fake goods was and still is often considered a victimless crime. Little or no thought has been given to where the money made from such goods *really* goes. China's legal system, although now several decades old, is still maturing and growing. It is still almost impossible to get a prejudgment restraining order or a preliminary injunction. Monetary damages are seen as almost an afterthought, as an adverse judgment is considered embarrassment enough. Strong pressure to keep labor fully employed (one estimate is that almost 200 million persons are employed in the business of fakes in China) keeps local governments from actively seeking to stop factories' making fakes. The lack of prosecution for recidivism

means that a factory, when targeted, suffers only the loss of one day's products, a small fine, and nothing more. That is hardly a deterrent, considering the profits to be made. (Indeed, the narcotics trade, with a return of 10 to 1, has been compared to counterfeiting, which has an estimated return of 18 to 1 and, moreover, far lighter penalties when the perpetrators are brought to court.) The ability to do business using false names and addresses—in China, perjury is not prosecuted as a crime—enabled a counterfeiting industry to grow unfettered. Today, although it is clear that the central government wants to be free of the taint of counterfeiting, the middle-level governors and/or city-level mayors and law enforcement officials remain to be convinced. Counterfeiting is a big business in China, and likely to remain so.

The second change came as a result of the 9/11 bombings of the World Trade Center in New York. With time and the Internet, those who had the drive realized that counterfeiting brought with it vast profits, which, in turn, bought power, suborned governments, diverted law enforcement and raised money for other criminal activities. After 9/11 many governments moved to close down financial conduits funneling money into illegal organizations around the world. Those organizations needed and still need alternative methods of raising and moving money. At the same time, organizations engaged in drug trafficking realized that they could “loan” money to factories making fake goods and then launder returns. In South America, whole malls are devoted to selling fakes. When one goes, one sees almost no customers, but there is plenty of money flowing through the system. Where Customs services are unpaid they are easily suborned into looking the other way. Treaties such as NAFTA enhanced the flow of goods to the degree that counterfeiters found it easier to import and distribute products fairly openly instead of using the clandestine methods employed in the past. The efforts on the part of multinational companies as well as individual governments are only now starting to catch up.

A third change was the Canal Street watch case I described above. If one were to sum it up, acting for the Richemont group of companies, in particular Cartier, we concluded an 18-month investigation in the United States with the prosecution of 21 individuals, breaking up four major rings of importers of fake products and seizing more than 2 million fake watches comprising over 125 brands and over \$3.5 million in cash from the so-called banks that were being used to launder funds. Ultimately we took a huge judgment and enforced it against the defendants' assets. This series of actions was a game changer, as those engaged in counterfeiting realized that they had to avoid large inventories in countries where the laws were now solid and being forcefully implemented and move their money to protected jurisdictions. Now

you rarely get large inventories in the selling countries. Both inventory and cash move in and out of protected jurisdictions. Overnight shipping is easy, Customs over stretched. Product flows in small batches.

The final change was and continues to be the greatest: the Internet. The Internet has changed the paradigm. For years and years we followed one basic rule in the anti-counterfeiting business: simply put, cut off the head and the body dies. Counterfeiting was seen in a pyramidal shape: the big boss at the top, with layers beneath representing manufacturing, shipping, importing, distribution, and sales. Enforcement specialists could use investigative resources as well as civil search and seizure to go up the chain; identifying and prosecuting (or suing civilly) those at the top of the pyramid and seizing assets related to the nefarious activities. The Internet, coupled with the events and changes I have described above, has created a whole new world in counterfeiting and requires in turn a whole new approach.

No longer are sellers of fake goods secret. No longer does one have to sue in, say, the United States or France or Sweden or Australia to identify the source of goods coming in to a country. All one has to do is go to the Internet and type "Replica [brand]," and hundreds if not thousands of sites will pop up in search results, all willing to sell small quantities direct by overnight delivery. The change from large inventories moving in to smaller, steady amounts flowing in by Fedex or DHL or UPS has been significant. At best, all the customs services combined examine perhaps 5 percent of the world's trade. Consider the odds of a small shipment, which is being moved urgently around the world, e.g., made in one place, assembled in another, shipped from a third for sale in a fourth and which has a declared value under U.S. \$25, being stopped for examination. As diligent as Customs is, the task is virtually impossible.

In years past we could seize money, as the accounts were located in the jurisdictions where the defendants were found. The Internet has changed this as well. No longer does one have to travel on "vacation" to the Cayman Islands or elsewhere to open a clandestine bank account. One can do so via the Internet overnight. No longer does one have to return to the bank to issue transfer instructions to move money. Now, all one needs is an ATM machine.

Money moves rapidly into jurisdictions designed from scratch to shield assets from law enforcement. Moldova is perhaps most frequently mentioned. It is almost impossible to get money out of Moldova, regardless of your proofs, judgment, or debt. Without question, it is the Internet that has enabled this change.

We used to be able to identify the different individuals or businesses engaged in a conspiracy to make and distribute fake

products by reason of their structured organization. That is no longer the case. Counterfeiting now is more like a stacked series of boxes, with each box representing a task—manufacturing, distributing, shipping, importing, wholesaling, trucking, and retailing. For the most part, none of these task-related groups knows the others. They are not part of any organization *per se*. Rather, they are formed for the task at hand. If you identify and disable one group, another easily slides into place to serve the same function. How? Via the Internet, of course. If a counterfeiting operation needs a trucking operation, it can be found, retained, and paid for without anyone ever meeting another in person. Documentation can be fabricated in South Africa and delivered in Israel to accompany an individual carrying funds to Moscow, who will in turn ship goods to Turkey, where they will find their way to the international markets.

In short, the entire process of counterfeiting has changed dramatically. Perhaps the key factor has been the disappearance of nationalities when it comes to those engaged in counterfeiting. It matters not where goods are made, sold, paid for, or shipped or who is involved.

Those engaged in counterfeiting realized quickly that the growth in global trade, the enactment of international agreements enhancing the movement of goods, and the relaxation of financial restrictions created for them a business without borders. The counterfeiters themselves are nationless.

Not so for the good guys. Today, enforcement still is dramatically different from country to country. Anti-counterfeiting efforts by law enforcement stop at the border, regardless of cooperation. A law enforcement agent from the United States cannot track and arrest a drug counterfeiter in China. He must rely on the Chinese to do it, and because of the different cultures, systems, laws, and the like, cooperation is often wanting. Whole governments have been suborned to illegal trade and are impossible to bring to heel. Ever so slowly the countries of the world are coming to realize that global efforts will be required if counterfeiting is to be controlled. Law enforcement cooperation has grown. Customs services around the world meet regularly to exchange information. The adoption, one hopes, of ACTA and/or other laws and regulatory schemes to harmonize enforcement efforts will go a long way to enabling the civil sector to protect itself and to work more closely with law enforcement in days to come.

In this writer's view, one critical element is yet to be addressed on a global basis, and history teaches without this element any anti-counterfeiting effort will ultimately fail. That element is: the education of the public. Most governments show little will in facing this issue. Most brands are even worse,

especially if they are in the sensitive areas of public health, like pharmaceuticals. Many luxury brands think their panache or reputation will be adversely affected by their publicizing their anti-counterfeiting efforts. Most individuals consider their purchase of a fake item to be something “cool,” borderline criminal, with a bit of nasty thrown in but “no real harm.” The concerns are misplaced. Evidence suggests that consumers, when given the real information about where clandestine funds wind up today (terrorists, drug gangs, illegal armies, religious zealots), or what risks are run by buying cheap products or drugs, or the civil services they lose by unpaid taxes slowly realize that what they thought was simply fun is anything but.

Consider, for example, the billions of dollars the United States and other countries have spent in South America to eradicate cocaine and other drugs. While the effort is laudable and necessary, it has not been the ultimate solution. The drug trade flourishes. The key reason is there are people who want and use drugs; in short, there is a marketplace. Unless and until the demand changes, there will always be drug dealers. There is no difference in the business of counterfeit goods. Unless and until the market or demand dries up, or at least diminishes, there will be those who will make the products, ship, import, and sell them. Also consider the penalties: if you are caught selling cocaine, you go to jail for years; if you are caught selling fake handbags, however, more often than not you get a slap on the wrist. In view of the profits, is it not a fair trade between millions of dollars in the bank and less than a year, if at all, in jail?

Some brands, those that are more enlightened, actively publicize their efforts. Some have established websites directed toward their anti-counterfeiting efforts. This effort needs to be continued and enhanced. It is a difficult and formidable task to manage anti-counterfeiting efforts on the one hand and public education on the other, but without both all counsel will do, at best, is control the problem so the marketplace remains available for legitimate goods.

Commitment is a top-down-driven action in anti-counterfeiting. For those who say the task is impossible, I say, look back ten years at certain countries that today have freed themselves of some of the most difficult drugs in the world, those contained in cigarettes. Who would have thought the United States would essentially have its children growing up tobacco free, or that today you cannot smoke while having a coffee at a bistro in Paris or a restaurant in London? While tobacco is, to be sure, not the same as counterfeit goods, there is no question that nicotine was and is a powerful drug, more powerful, pound for pound, than heroin. There is equally no question that the vast majority of adults in the United States, France, and other countries were

smokers until 10 or 15 years ago. Those same individuals are changing lifelong habits, as are the countries in which they live. This can and must happen with regard to counterfeit goods. The market must learn to say no before those engaged in counterfeiting will ultimately stop.

The business of counterfeiting has gone through enormous changes in the past 30 years. From its inception, as T-shirts sold at concert venues, to today, where if something has a brand on it it most certainly is being counterfeited somewhere in this world; from apparel to drugs, guns, and even prunes (I found them being illegally packaged in northern Thailand several years ago); from high-priced luxury items to low-priced, high-volume items such as toothpaste, counterfeiting continues to evolve, with the change being accelerated by the Internet. Enforcement efforts must change to meet this new paradigm or they will face a tough road ahead.

It is happening. China's recent efforts against counterfeiting and in favor of protection of intellectual property are to be applauded. The passage and adoption of ACTA are equally commendable, as is the formation of central agencies in various countries designed to deal with counterfeiting on a multinational basis. But in the civil sector, the owners of those brands or products most affected must themselves shoulder the enormous responsibility of educating the public and move it away from the perception, which still exists, that copying is fair game.

Until then, I expect to be on the road again.

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