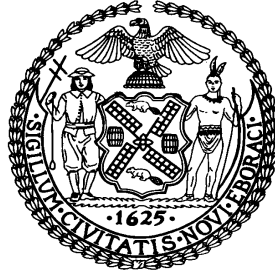


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### COMMITTEE ON PUBLIC SAFETY

Hon. Peter F. Vallone Jr., Chair

June 13, 2013

**INTRODUCTION 544:**

By Council Members Chin, Rivera, Fidler, Mendez, Comrie, Brewer and Koslowitz

**TITLE:**

A Local Law to amend the administrative code of the city of New York, in relation to the purchase of counterfeit goods.

**ADMINISTRATIVE CODE:**

Amends title 10 of the Administrative Code of the city of New York by adding a new chapter 9.

## **I. INTRODUCTION**

On June 13, 2013 the Committee on Public Safety, chaired by Council Member Peter Vallone Jr., will hold a hearing to discuss Introduction 544, which would amend the administrative code of the city of New York, in relation to the purchase of counterfeit goods. The bill was introduced on April 28, 2011, and referred to the Committee on Public Safety.

## **II. BACKGROUND**

Trademarks are used to distinguish a particular brand, product, or company from others and can be words, symbols, designs, or phrases.<sup>1</sup> Counterfeiting occurs when a person manufactures and offers to sell goods bearing counterfeit trademarks, which are imitation trademarks that are identical or substantially indistinguishable from genuine trademarks and are used with the intent to deceive.<sup>2</sup> This practice differs from “knock-off” merchandise, which typically involves selling products that do not bear the likeness of a trademarked product, but copy the product’s design and style.<sup>3</sup> It is “perfectly legal” to sell knock-offs, but it is against the law to sell goods bearing a counterfeit trademark.<sup>4</sup>

In the United States, companies – particularly luxury brands – lose billions of dollars each year to counterfeit sales.<sup>5</sup> In addition, the sale and purchase of counterfeit goods allegedly supports a variety of nefarious activities, including: money laundering,

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<sup>1</sup> Kristoff Grospe, *Proposed Law Targets Purchasers of Counterfeit Goods*, 18 CityLaw 1, 20 (2012).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *People v. Rosenthal*, 2003 N.Y. Slip Op. 51738(U) (N.Y. Cty. Crim. Ct. Mar. 4, 2003).

<sup>5</sup> Counterfeit sales in 2003 totaled an estimated \$287B in the United States, an estimated eight percent of which was sold in New York City. Another study estimated that in 2005 up to 200 billion dollars of internationally traded products might have been counterfeited. See Organisation for Economic Co-operation and Development, *The Economic Impact of Counterfeiting and Piracy*, Executive Summary 6 (2007), <http://www.oecd.org/industry/ind/38707619.pdf>.

welfare fraud, child labor, organized crime, drug trafficking, and terrorist activity.<sup>6</sup> New York City is a leading area in the sale of counterfeit goods.<sup>7</sup> In fact, in 2003, it was estimated that \$23 billion was spent on counterfeit goods in New York City alone.<sup>8</sup> These sales not only fund possible criminal activities, but they also deprive the city and state of necessary tax revenue.<sup>9</sup>

The City's Canal Street area is particularly well known for its counterfeit consumer goods business, including the "Counterfeit Triangle," a block bounded by Canal, Walker, Baxter, and Centre Streets.<sup>10</sup> A single 2008 raid of that area resulted in confiscation of counterfeit goods valued at over \$1M.<sup>11</sup> Counterfeiters use minor alterations or exact replicas – often of dubious quality – to produce and offer for sale goods that appear very similar to high-end luxury goods at a fraction of the cost to consumers. New York City is a particularly significant market for counterfeiters due to the high volume of shipping into New York City's Port, high per capita income, high sales tax, large population, and considerable tourist industry.<sup>12</sup>

In addition to the financial costs, trademark counterfeiting raises other concerns. Brand owners argue that without the protection of trademark enforcement, they are less

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<sup>6</sup> See, e.g. Dana Thomas, *The Fight Against Fakes: Child labor, terrorism, human trafficking*, Harper's Bazaar, January 9, 2009, available at: <http://www.harpersbazaar.com/magazine/feature-articles/the-fight-against-fakes-0109>

<sup>7</sup> Jenny T. Slocum, *Counterfeit Goods: How Did We Get Here and Where Will We Go Next?*, 9, presentation for consideration of 2010 Dr. Thomas Marx Award, submitted February 15, 2010.

<sup>8</sup> Office of the Comptroller, *Bootleg Billions: The Impact of the Counterfeit Goods Trade on New York City*, Nov. 2004, available at: <http://www.comptroller.nyc.gov/bureaus/bud/04reports/Bootleg-Billions.pdf>.

<sup>9</sup> For example, according to a report by the Comptroller's office, in 2003 the City lost at least \$1 billion in tax revenue.<sup>9</sup> See *id.*

<sup>10</sup> Grospe, *supra* note 1.

<sup>11</sup> *Id.* at 20.

<sup>12</sup> Office of the Comptroller, *Bootleg Billions: The Impact of the Counterfeit Goods Trade on New York City*, Nov. 2004, available at: <http://www.comptroller.nyc.gov/bureaus/bud/04reports/Bootleg-Billions.pdf>.

likely to reap the rewards of innovative design and quality craftsmanship.<sup>13</sup> In addition, when counterfeits are prevalent, consumers may be unable to determine whether the goods they purchase are authentic, and thus whether they are spending their money on a high-quality product from a trusted brand. Consumers may also falsely believe that they have recourse for defects in the product purchased – either via customer service or the judicial system.

The anti-counterfeiting and trademark enforcement laws at the federal level provide penalties for counterfeiters throughout the production chain, including for manufacturers and importers, retailers, and even retailers' landlords. These protections are present primarily through the Lanham Act.<sup>14</sup> Under New York State law there are three degrees of trademark counterfeiting, all of which are violated if a person “manufactures, distributes, sells, or offers for sale goods which bear a counterfeit trademark.”<sup>15</sup> The crime can be a Class A Misdemeanor, a Class E Felony, or a Class C Felony with the aggravating factor being the retail value of the goods bearing the counterfeit mark.<sup>16</sup> Under New York State law it is not illegal to purchase counterfeit products without some sort of intent to sell or redistribute. The purchase of counterfeit goods by consumers, which is thought to drive counterfeiting activity, is not regulated at all.

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<sup>13</sup> Organisation for Economic Co-operation and Development, *The Economic Impact of Counterfeiting and Piracy*, Executive Summary 6 (2007), <http://www.oecd.org/industry/ind/38707619.pdf>.

<sup>14</sup> 15 U.S.C. §§ 1051–1127. (The Lanham Act provides for civil liability for “use in commerce [of] any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.”)

<sup>15</sup> N.Y. Penal Law §§ 165.71-165.73.

<sup>16</sup> *Id.*

Unlike the United States, Italy and France have enacted stringent laws that punish those who purchase counterfeit products.<sup>17</sup> Italian law makes purchasing such goods punishable by a fine of up to €10,000.<sup>18</sup> France's Intellectual Property Code provides for a fine of €300,000 (about \$390,000) and imprisonment of three years<sup>19</sup> for a person who “holds without legitimate reason, imports under all customs procedures or exports goods presented under a [sic] infringing mark.” In addition, “any individual in possession of a counterfeit product is liable to [sic] a fine equivalent to twice the value of the genuine article.”<sup>20</sup> The notable difference between the laws of Italy and France is that the Italian law prohibits the affirmative act of purchasing while French law prohibits the holding of goods with an infringing mark.

### **III. Introduction 544 of 2011**

Introduction 544 of 2011 would amend title 10 of the administrative code by adding a new chapter 9 entitled “Counterfeit Trademarks.” Under this new chapter two new sections are created: section 10-901 entitled “definitions” and section 10-902 entitled “Purchase of Counterfeit Trademarks Illegal.”

Section 10-901 of the bill defines relevant terms, including “person,” “purchase,” “trademark,” and “counterfeit trademark.” Most importantly, “counterfeit trademark” is defined as “a spurious trademark or an imitation of a trademark that is used to identify

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<sup>17</sup> Lisa Lyne Cunningham, *Trademark Counterfeiting and Individual Purchaser Liability*, Nat'l L. R. (Nov. 11, 2011), available at <http://www.natlawreview.com/article/trademark-counterfeiting-and-individual-purchaser-liability>.

<sup>18</sup> See Italy Decree-Law 80 of 2005. “Unless the act amounts to an offence, the purchase or acceptance without previously ascertaining their legitimate origin, for any reason of objects which, because of their quality or because of the condition of the person offering them or because of the price, lead to believe [sic] that laws on origin and source of the good and one intellectual property have been infringed is punished with a fine up to 10,000 euros...”

<sup>19</sup> BBC News, *Tourists Warned over Fake Goods* (Aug. 22, 2009), available at <http://news.bbc.co.uk/2/hi/8215519.stm>.

<sup>20</sup> Amanda Silverman, *Draconian or Just? Adopting the Italian Model of Imposing Administrative Fines on the Purchasers of Counterfeit Goods*, 17 *Cardozo J. Int'l & Comp. L.* 175, 199 (2009)

goods made by a person or company and that is identical to or substantially indistinguishable from a trademark.” Section 10-902(a) of the bill sets forth the new prohibition that would punish those who purchase an item with a counterfeit trademark when such person knows or should know that the trademark is counterfeit. Section 10-902(a) also states that whether or not a person knew or should have known that the trademark was counterfeit is based on “reasons including, but not limited to, the quality and price of the purchased item, and/or the condition of the seller and the sale location.”

Section 10-902(b) explains that violations of the prohibitions set forth in this bill are deemed a Class A misdemeanor, punishable by a fine up to \$1,000 and imprisonment up to one year, or a civil penalty of up to \$1,000 for each violation, or both. Each good or object purchased in violation of the provisions of the bill would be considered a separate violation. The bill would take effect immediately.

By Council Members Chin, Rivera, Fidler, Mendez, Comrie, Brewer and Koslowitz

A Local Law to amend the administrative code of the city of New York, in relation to the purchase of counterfeit goods.

Be it enacted by the Council as follows:

Section 1. Title ten of the administrative code of the city of New York is amended by adding a new chapter 9, to read as follows:

Chapter 9. COUNTERFEIT TRADEMARKS.

§10-901. Definitions.

§10-902. Purchase of Counterfeit Trademarks Illegal.

§ 10-901. Definitions. For the purposes of this chapter the following terms shall have the following meanings: a. "Person" shall mean a human being, a public corporation, a private corporation, an unincorporated association, a partnership, proprietorship, or any other kind of entity or business organization.

b. "Purchase" shall mean to obtain ownership or possession of a tangible item in exchange for money or any other form of valuable consideration.

c. "Trademark" shall mean any word, name, symbol, or device, or any combination thereof (i) that is adopted and used by a person or company to identify goods made by a person or company; (ii) that distinguishes such goods from those manufactured or sold by others; and (iii) that is in use and that is registered, filed, or recorded under the laws of the State of New York, any other state, or with the United States Patent and Trademark Office.

d. "Counterfeit trademark" shall mean a spurious trademark or an imitation of a trademark that is used to identify goods made by a person or company and that is identical to or substantially indistinguishable from a trademark as defined in this section. It does not include any authorized use of a trademark or imitations of trade dress or

packaging such as color, shape and the like unless those features have been registered as trademarks as defined in this section.

§10-902. Purchase of Counterfeit Trademarks Illegal.

a. Prohibition. No person shall purchase a tangible item containing a counterfeit trademark when such person knows or should have known such trademark is counterfeit for reasons including, but not limited to, the quality and price of the purchased item, and/or the condition of the seller and the sale location.

b. Penalties.

1. Any violation of the provisions of this section shall be deemed a Class A misdemeanor punishable by a term of imprisonment not to exceed one year and a fine not to exceed one thousand dollars, or a civil penalty not to exceed one thousand dollars for each violation, or both, and such penalties shall not limit or preclude any cause of action available to any person or entity injured or aggrieved by such violation.

2. Each object or good purchased shall be considered a separate violation of this section.

§ 2. This local law shall take effect immediately.

CJG  
LS #1430  
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