



American Free Trade Association
AFTA
The Association for Freedom to Trade
In America

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We Are AFTAUS Because They Are After Us

Status Report

As 2011 comes to a close, we wanted to share with you a status report about what the Association has done, is doing, and intends to do in the coming year. The following is a progress report on our efforts to protect proprietary supply chain information of U.S. importers and exporters and to ensure first sale protection for genuine goods regardless of place of manufacture. The legal protections critical to all parallel market businesses continue to face increasing challenges from Executive, Legislative and Judicial decision-makers who support broader authority to combat counterfeit goods without adopting the safeguards necessary to avoid unintended (or intended) disruption of parallel market trade.

UNREDACTED PRODUCT SAMPLES TO RIGHTS HOLDERS PRIOR TO ENTRY



Rights holders have long wanted Customs to provide them with “unredacted” product samples prior to seizure, prior to detention, prior to entry and without notice to the importer or owner of those goods. The President is about to sign a bill which will provide that authority, but which also leaves open avenues for containing or eliminating the negative impact upon parallel market importations.

Under the legislation that the President is about to sign, product samples would be provided in their imported condition, with all tracking, distribution and other codes still intact. This legislation is known as the National Defense Authorization Act and the specific



language of concern is reproduced below. We have also listed below additional legislative efforts to disclose proprietary importer and exporter information to brand owners, all of which efforts are pending simultaneously.

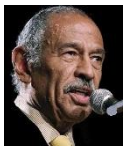


➤ **The National Defense Authorization Act has passed both houses and is expected to be signed by the President.**

Here is the language in the Bill that AFTA members should be aware of:

- (1) IN GENERAL- If United States Customs and Border Protection suspects a product of being imported in violation of section 42 of the Lanham Act, and subject to any applicable bonding requirements, the Secretary of the Treasury may share information appearing on, and unredacted samples of, products and their packaging and labels, or photographs of such products, packaging, and labels, with the rightholders of the trademarks suspected of being copied or simulated for purposes of determining whether the products are prohibited from importation pursuant to such section.

This language provides CBP with authority to provide a brand owner with product samples in the condition they are presented for entry, including all product codes and indicia appearing on the product, its packaging or labels. To the extent that those codes may reveal the importer's proprietary supply chain, there is nothing in this bill that specifically prevents the brand owner from relying upon that information for whatever further actions they may wish to take (such as, for instance, terminating or disciplining its authorized distributor through which the product had been distributed), nor does it provide notice and an opportunity for the importer to avoid a damaging disclosure.



- **Congressional Statements of Support:** The legislative history of the Department of Defense bill includes a lengthy statement by Congressman John Conyers (D-MI) in support of AFTA's position that better protections must be provided for importers and that this legislation is an unnecessary expansion of existing border rights for trademark owners. You can read a copy of this statement by clicking here: [Congressional Record](#)



- **Support for the Administration's language:** The Intellectual Property Enforcement Coordinator's office, which is part of the Administration, has proposed language that would provide CBP with the authority to disclose unredacted product samples, but only when there is a demonstrated need to do so and only after the importer has first been provided with an opportunity to prove product authenticity so that disclosure can be avoided. AFTA believes this provides much better protection for all importers and is continuing its efforts on the Hill to champion this language in lieu of what is currently in the National Defense Authorization Bill.



- **Adopt Alternative Methods To Determine Product Authenticity:** AFTA is also working with the Administration and Customs and Border Protection ("CBP") to adopt alternatives to disclosure of unredacted samples. Late last year, CBP launched initiatives to explore alternative anti-counterfeiting programs, including use of technological solutions, or the establishment of supply chain partnership programs. AFTA will participate in these exploratory initiatives early in 2012.



- **Negotiations with Proponents of the bill(s):** There are also related provisions found in the Protect IP Act and the SOPA legislation (see below article). While both bills are primarily focused on shutting down rogue Internet sites engaged in sales of counterfeit and infringing goods, they also include other provisions which would create specific exemptions from the Trade Secrets Act, giving immunity to Customs officials for any illegality under that Act for disclosures of "unredacted" samples – or other transactional information – to rights holders. AFTA has made its objections to these provisions known, and is currently negotiating with proponents of the language to ensure that a *bona fide* suspicion of counterfeit or infringing products is the basis for disclosure and to provide importers with the notice and response protections contemplated in the Administration's bill. Click the applicable section links to read the language in these bills: [Section 8 - Protect IP Act](#) [Poe Amendment](#)



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➤ **Distinguishing between counterfeit and infringing goods:** Some versions of legislative language facilitating the disclosure of unredacted product samples to rights holders refer only to protection against suspected “counterfeit” goods, but others also seek to protect against the broader category of suspected “infringing” goods. While the existing definition of a “counterfeit” product specifically excludes goods manufactured by or under authority of the U.S. rights holder, there is no definitive definition of what does or does not constitute an “infringing” product. Moreover, as discussed below, some U.S. courts have determined that foreign manufactured goods may “infringe” U.S. copyrights if they are imported into the U.S. without the consent of the U.S. copyright owner. As a result, there is a concern that if language permitting disclosure in the case of suspected copyright infringement remains, any product imported into the United States from a party other than one authorized by the U.S. rights holder may lead to disclosure of product samples to unrelated U.S. copyright owners to verify product authenticity. AFTA is working with proponents of the language to limit disclosure to cases in which there is a *bona fide* suspicion that the goods are counterfeit or to include a definition of “infringing goods” that specifically excludes goods manufactured by, under or on behalf of the U.S. rights holder.

AFTA continues its aggressive advocacy on behalf of our industry and will keep its members and supporters up to date on the status of this work as the Congress returns to work in early 2012.

Providing First Sale Protection for All Genuine Goods, Regardless of Place of Manufacture

Judicial Activity



In 1998, the U.S. Supreme Court in *Quality King v. L'anza* held that products manufactured in the U.S. could be reimported back into the United States without running afoul of the U.S. Copyright law because of the protections of the First Sale Doctrine embodied in the text of the U.S. Copyright statute.

In 2010, the U.S. Supreme Court, in *Costco v. Omega*, deadlocked (4-4 vote) and thereby let stand a 9th Circuit Court of Appeals decision holding that the protections for subsequent sales of genuine goods found in the First Sale Doctrine did not apply to goods manufactured

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outside of the United States and, accordingly, such goods could only be imported into the United States with the copyright owner's permission.

In 2011, the Supreme asked to decide this issue in the recently decided of Appeals entitled *Supap Sons, Inc.* In this case, a published textbooks from resale on eBay to college because those States were just too



Court has once again been on a petition for certiorari case in the 2nd Circuit Court *Kirtsaeng v. John Wiley & U.S.* student obtained his family overseas for supplement his funds for same books in the United expensive. The U.S.

publisher and copyright owner sued for copyright infringement and the lower courts ruled in favor of the U.S. publisher holding that, the student had no right to bring the books into the United States and/or to resell them because no permission was granted by the copyright holder for Mr. Kirtsaeng to import the foreign published books. You can click here to read a copy of the petition filed with the Supreme Court asking that it accept the case for review: [Wiley Petition](#)

Whether or not the Supreme Court will accept the new case for review is entirely discretionary with the Court. It need not give any reason for accepting or refusing to accept a case and there is no authority which compels it to take a case such as this. AFTA will be submitting an Amicus Brief supporting Kirtsaeng's petition for Supreme Court review during the first week of January. Please stay tuned to AFTA's website for updates and a copy of that Brief.

Additional Efforts



sought.

AFTA's Board of Directors is presently discussing the possibility of pursuing other options and avenues to ensure that the First Sale Doctrine applies equally to domestically and foreign-manufactured goods. Several other trade associations, businesses and groups have expressed an interest in supporting our initiative. As these additional efforts and activities evolve, AFTA members and supporters will be informed and their assistance/input

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Do you sell products on the Internet? If you do, you need to know about PROTECT-IP and SOPA....

Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act of 2011 Click here: [Protect IP Act](#)

The targets of the Protect IP Act are websites that are “dedicated to infringing activities”. The key to determining if a website meets this definition is whether it can be proved that the website has “no significant use” other than engaging in or facilitating infringement. Remedies for violations include: (i) blocking the domain name from DNS servers and search engine results (available only to U.S. law enforcement); (ii) mandating that financial institutions (meaning primarily credit card processors) cease doing business with offending websites to the extent of U.S. online customers (available both to U.S. law enforcement and content owners), and (iii) prohibiting advertising services that provide ads to offending websites from continuing to do business with them (available both to U.S. law enforcement and content owners).

Stop Online Piracy Act Click here: [SOPA Act](#)

SOPA is similar to Protect IP, but there are differences. The key difference is that SOPA lowers the bar for the quantum of evidence required to determine which sites are “infringing”, meaning that content owners would have an easier task in obtaining their remedies. Under SOPA, content owners would have to prove only that an offending website is “dedicated to the theft of U.S. property,” clearly a much lower proof requirement than Protect IP’s. Unlike Protect IP, SOPA would employ a procedure involving a notice and counter-notice prior to bringing action against an infringing website. The notice would enable payment network providers and Internet advertising services the opportunity to cease dealing with offending websites prior to an action for a court order.

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Get To Know Some of Your Board Members



ALFRED PALIANI, ESQ. Fred is the President of AFTA and a member of its Board. Formerly as a trial lawyer in private practice and more recently as General Counsel for Quality King Distributors, Inc. and its affiliated group of companies, Fred has been on the front lines for the past 28 years advocating for his clients on many issues that impact our industry in the state and federal courts, on Capitol Hill, and before the state and federal agencies responsible for many of the regulatory initiatives that impact our industry.



GILBERT LEE SANDLER, ESQ. He is General Counsel to AFTA. A former Department of Justice trial lawyer, he has spent over forty (40) years practicing in the areas of government regulation of imports and exports. For over twenty-five years, he has been an advocate for parallel market trade before Congress, in executive branch agencies, with international trade negotiators and in federal and state litigation.



PHIL SWEENEY - Phillip C. Sweeney is the Treasurer of AFTA and member of its Board. Mr. Sweeney is the owner/CEO of multiple international wholesale companies involved in liquor, cosmetics, and tobacco products. Phil was previously engaged in the duty-free industry and has been involved in parallel market for over thirty years.



LAUREN V. PEREZ – Lauren is AFTA's Advisor on Government Affairs and works on general administrative matters related to the Association. Lauren spent nearly 14 years at Sandler, Travis & Rosenberg, P.A., working with AFTA and focusing on the relationship between CBP, federal agencies, the secondary marketplace and the global protection of Intellectual Property Rights. Prior to that, Lauren worked at the World Wrestling Federation (now known as World Wrestling Entertainment), protected the intellectual property of Barney the Purple Dinosaur, and licensed the property of some major musicians and other entertainers.

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Thank you for contributing to AFTA! Your donations will enable AFTA to continue its work and better represent the needs of the domestic parallel marketplace.

While contributions or gifts to the American Free Trade Association (AFTA) are not tax deductible as charitable contributions for Federal income tax purposes, they may be tax deductible under other provisions of the Internal Revenue Code as ordinary and necessary business expenses.

On behalf of the Board of Directors, AFTA wishes you and your families a wonderful holiday season and Happy New Year.



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