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"Shelter Chic": Can the U.S. Government Make it Work?

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“Shelter Chic”: Can the U.S. Government Make it Work?

ABSTRACT

This Note discusses government donations of seized counterfeit goods to charitable institutions and the implications of these practices. The Customs and Border Protection (CBP) contributions to the Red Cross for the Hurricane Katrina relief effort serve as a backdrop for important concepts. In making these contributions, the CBP relied on its emergency authority and a presidential proclamation to avoid basic statutory requirements that it (a) obtain consent from the right holders and (b) de-trademark counterfeit goods prior to donation. While the donations inarguably benefitted countless disaster victims and freed up valuable CBP warehouse space, they may have had a detrimental impact on trademark holders’ rights and the U.S. government’s image as a forerunner in global IP rights enforcement. Additionally, the CBP’s post-Katrina contributions raise concerns as to the legality of such donations under federal and international law. This Note weighs the various interests at stake and ultimately suggests policies for avoiding the unnecessary sacrifice of trademark holders’ rights in future government donations.

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I. INTRODUCTION

The children displaced by Hurricane Katrina may have been the new kids at school that fall, but at least they were dressed to impress. Thanks to the federal government, their back-to-school wardrobes boasted a variety of fashion-forward labels. After surviving a natural disaster that left many homeless and with nothing but the clothes on their backs, displaced Katrina victims in Texas and Mississippi were permitted to choose from several hundreds of thousands of articles of brand-new, knock-off designer clothing donated by the Customs and Border Protection (CBP) division of the Department of Homeland Security.1

During the fall of 2005, the CBP joined the list of various charities, businesses, and other organizations that contributed to the Hurricane Katrina relief effort.2 Customs workers emptied several warehouses full of seized counterfeit goods into CBP tractor-trailers for distribution to displaced victims finding refuge in places like the Houston Astrodome.3 The donations, which eventually exceeded

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1. U.S. Immigration & Customs Enforcement, U.S. Dep't of Homeland Sec., ICE, CBP Donate Seized Clothes to Katrina Victims, INSIDE ICE, Sept. 20, 2005, at 5, 5; Fakes Put to Good Use, FASHIONUNITED, Sept. 8, 2005, http://www.fashionunited.co.uk/Content_by_Mail/Received_content/Fakes_put_to_good_use_200509084758/.
twenty million dollars in value, included everything from knock-off designer jackets, t-shirts, pants, and hats, to counterfeit bedding, toys, and even dog food.

Criticism of the federal government's delayed response to Katrina was severe. But praise for the CBP's donations, by contrast, was emphatic. Finally, it seemed, the government had done something right: useful items, which would have otherwise been destroyed, were put to good use, and customs enjoyed the added benefit of extra warehouse space. Under this pragmatic solution, everyone seemed to win.

Amidst the resounding praise, however, there was a nearly inaudible voice of dissent. The CPB donations may have been a blessing for the victims of Katrina, but they were a nightmare for the owners of the affected trademarks. Most counterfeit goods entering United States' borders go undetected by law enforcement, so these items represented the small percentage of counterfeit goods that did not fly under the radar. Customs authorities impounded these items, yet ultimately they were redistributed to the public by the same hands that seized them.

In its act of charity, the federal government sacrificed the rights of the trademark holders. The CBP made no attempts to first contact the trademark holders to gain consent for the donations. The CBP also made no efforts to remove or obscure the infringing trademarks.

7. See, e.g., Gorman, supra note 2 (noting support for the program).
8. Id.
10. Id.
13. See Press Release, U.S. Customs & Border Prot., supra note 4 (noting that at no point did the CBP receive the prior authorization from those whose trademarks were violated by the counterfeit clothing that was distributed to Katrina victims).
(i.e., to "de-trademark" the goods) prior to redistribution. Instead, CBP officials imprudently and unilaterally doled out goods that prominently—and erroneously—displayed designer names.

The affected trademark owners were, unsurprisingly, less than enthusiastic about the government's generosity. The CBP's donations raised legitimate business concerns for several prominent brands. After all, these companies certainly did not spend millions of dollars in high-end advertising only to be associated with "shelter chic." Moreover, the trademark owners could exercise no control over the quality and safety of these donated goods that would necessarily be associated with their products. This being said, "would any prominent brand be churlish enough to tear a faux-designer blanket away from a shivering family?" As Professor Susan Scafidi points out, nobody would want to "run the public relations risk of taking candy from babies—or clothing from Katrina victims." But the interests at stake were not as simple as the wellbeing of displaced U.S. citizens versus the property rights of U.S. corporations.

Even less audible than the voices of the trademark holders were the voices of a separate set of victims halfway around the world, victims whose losses were more tangible than future lost sales or brand image deterioration. These victims are the casualties of the various terrorist groups funded by counterfeit trade, as well as laborers in foreign counterfeit factories, who earn a fraction of minimum wage in conditions tantamount to slave labor. Adamant in its condemnation of these practices, the U.S. government has been at the forefront of international intellectual property (IP) law enforcement. Yet by nevertheless distributing the fruits of foreign

14. See Scafidi, supra note 9, supp. (explaining that the impact of the CBP's donations on the trademark owners would have been mitigated if the CBP had obscured the trademarks on the counterfeit items before donation).

15. See id. ("Unless a cadre of customs officials armed with tiny scissors and indelible pens has been deployed to carefully remove or obscure the trademarks on knockoff jeans, shoes, baseball caps, and even toys, these items proudly—and falsely—declare their designer origin.").

16. See Counterfeit Chic, Counterfeits for Katrina Victims—Again, supra note 11 ("All trademark owners weren't necessarily thrilled that the small percentage of counterfeit merchandise actually impounded by law enforcement is back on the streets.").

17. Scafidi, supra note 9, supp.

18. Id.

19. Id.

20. Counterfeit Chic, Counterfeits for Katrina Victims—Again, supra note 11.


23. Scafidi, supra note 9, supp.
oppression to U.S. disaster victims in an effort to "lift the nation's spirit," the government may have undercut its own position on IP enforcement, sending the implicit message that the suffering of U.S. victims is more compelling than the suffering of victims overseas.

The Katrina donations raised a number of concerns, including the legality of the federal government's donations, and more broadly, the state of the government's policy on counterfeit trade. This Note weighs (a) the global interests in ending the harms related to the counterfeit goods industry; (b) the interests of the government in contributing to national emergency relief; and (c) the property interests of the trademark holders involved. Part II discusses the harms associated with counterfeit trade and introduces the relevant legal authority, while Part III analyzes the legal implications of these actions while applying provisions of international and federal law. Part IV addresses the international policy implications raised by the CBP's donations, and lastly Part V evaluates potential options for future CBP donations. Ultimately, this Note argues that the CBP unnecessarily sacrificed the rights of trademark holders and thereby violated provisions of international trade law in making its donations to the Katrina relief effort.

II. BACKGROUND

A. The Costs of Counterfeiting

i. The Economic Cost

The magnitude of international counterfeit trade should not be underestimated. Counterfeit goods make up an estimated ten percent of all products sold worldwide, and these products are not confined to the fashion industry. In 1985, Business Week referred to counterfeiting as "[p]erhaps the world's fastest-growing and most

24. See Jerry Seper, Seized Garments Donated to Storm Evacuees, WASH. TIMES, Sept. 8, 2005, at A14, available at http://washingtontimes.com/news/2005/sep/07/20050907-102011-9947r/ (quoting Robert Trotter, CBP director of field operations in Houston, as stating that the "CBP's mission is to protect the nation from terrorists and their weapons, but today we're here to lift the nation's spirit as well").

25. Scafidi, supra note 9, at S6.


27. Counterfeitors have been known to fake everything from medicines and personal care items to automotive brakes and luxury cars. Dana Thomas, The Fake Trade: Counterfeiting is a Business Worth $600 Billion a Year—and Growing, HARPER'S BAZAAR, Jan. 2008, at 71, 72.
profitable business.”

A decade later, Fortune Magazine named it “the crime of the twenty-first century.”

In the last twenty-six years, counterfeiting has grown from a $5.5 billion-per-year business to a $600 billion-per-year industry.

Known as a highly-lucrative business with relatively low risks, it continues to grow exponentially. Its success lies in consumer ignorance; counterfeiting flourishes where other illegal industries fall short because consumers continue to think of it as a “victimless crime.”

To the contrary, we are all victims of counterfeiting. The harm touches everyone affected by the resulting job shortages and the loss of tax revenues that could be used to improve schools, roads, and other community functions. Specifically, counterfeiting has cost an estimated 750,000 Americans their jobs and costs the city of New York alone an estimated $1 billion per year in tax revenues.

Trademark owners incur substantial costs as a result of counterfeiting. The most obvious of these is a loss of sales revenue from consumers choosing counterfeit goods over their more expensive counterparts. But trademark owners also experience deferred costs, as the free availability of counterfeits results in a loss of consumer goodwill and brand prestige.

Traditional trademark theory posits that “[w]hen a firm invests in its reputation by delivering a promised

28. Thomas C. O'Donnell et al., The Counterfeit Trade, BUS. WEEK, Dec. 16, 1985, at 64, 64.
33. Thomas, The Fake Trade: Counterfeiting is a Business Worth $600 Billion a Year—and Growing, supra note 27, at 72.
34. Id.
36. See Michael Blakeny, The Phenomenon of Counterfeiting and Piracy in the European Union: Factual Overview and Legal and Institutional Framework, in ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS THROUGH BORDER MEASURES 1, 7–8, ¶ 1.18 (Olivier Vrins & Marius Schneider eds., 2006) (“[C]ounterfeiting accounts for between 5 and 7 per cent of world trade in value terms. The immediate impact of this global trade is the loss of sales and the consequent impact upon employment.”).
37. See id. para. 1.14 (“The costs to businesses whose products are pirated and counterfeited include . . . loss of goodwill and prestige by a brand, where counterfeits are freely available . . . “).
quality, it develops goodwill with its customers. Trademarks allow consumers to identify the products of companies that have satisfied them in the past. Thus, a trademark becomes an asset to the firm, embodying its accumulated goodwill.\textsuperscript{38} When a counterfeiter produces products disguised as those of a legitimate brand but cuts corners with the quality of the products, the accumulated goodwill in the legitimate brand decreases.\textsuperscript{39}

In addition, modern marketing has significantly enhanced the value of trademarks.\textsuperscript{40} Trademarks traditionally served to identify the sources of products, but today they also "adorn" products.\textsuperscript{41} Consumers now see the logo as an essential part of the product itself and perhaps as a new commodity altogether.\textsuperscript{42} Consequently, "brands are among the most valuable assets that a company... can possess."\textsuperscript{43} Corporations spend millions of dollars nurturing and protecting these investments.\textsuperscript{44} Counterfeiters, however, avoid the costs of research, development, and marketing by free-riding off of the investments of legitimate businesses.\textsuperscript{45} As a result, the trademark owner experiences a further cost in the form of a competitive

\begin{itemize}
\item \textsuperscript{38} Gene M. Grossman & Carl Shapiro, Counterfeit-Product Trade, 78 AM. ECON. REV. 59, 60 (1988).
\item \textsuperscript{39} See Blakeny, supra note 36, para. 1.14 ("The costs to businesses whose products are pirated and counterfeited include... loss of goodwill and prestige by a brand, where counterfeits are freely available...").
\item \textsuperscript{40} See generally Graeme B. Dinwoodie & Mark D. Janis, TRADEMARKS AND UNFAIR COMPETITION: LAW AND POLICY 17–26 (2d ed. 2007) (discussing the impact of marketing and consumer awareness upon the value of a trademark).
\item \textsuperscript{41} Alex Kozinski, Trademarks Unplugged, 68 N.Y.U. L. REV. 960, 961 (1993).
\item \textsuperscript{42} See id. ("There's a growing tendency to use trademarks not just to identify products but also to enhance or adorn them, even to create new commodities altogether."). Professor Jeremy Phillips explains that trademarks often reflect a "desirable image or lifestyle into which consumers wish to buy. Whether the goods are real or fake, the message of the brand or design is unchanged." Jeremy Phillips, Intellectual Property: Borders and Crossroads, in ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS THROUGH BORDER MEASURES, supra note 36, at 1099, 1104, para. 29.16.
\item \textsuperscript{44} See Alexandra DeFelice, Marketing Expenditures will Double this Year, DESTINATION CRM, Jan. 24, 2006, http://www.destinationcrm.com/Articles/ReadArticle.aspx?ArticleID=47652 ("Direct, targeted marketing expenditures will more than double that of traditional mass marketing in 2006, reaching roughly $508 billion compared to $230 billion, according to the Winterberry Group.").
\item \textsuperscript{45} INTL. CHAMBER OF COMMERCE, INTELLECTUAL PROPERTY: SOURCE OF INNOVATION, CREATIVITY, GROWTH AND PROGRESS 15 (2005).
\end{itemize}
disadvantage with respect to counterfeiters; it "cannot 'compete' with pirates and counterfeiters on the price of products." This phenomenon leads to serious market distortions. American companies alone lose an estimated $20 billion per year to the counterfeit industry. However, this figure alone does not adequately represent the cost to American industry. Trademark owners also bear various legal costs, including the possibility of product liability for defective counterfeit goods and "the expense of monitoring for infringement and instituting legal proceedings against infringers." Moreover, IP theft "strikes at the heart of one of [the U.S.'s] greatest comparative advantages—[its] innovative capacity." The contributions of American inventors, researchers, entrepreneurs, artists, and workers have made the world a better place. Allowing counterfeiters to freeload off these legitimate efforts disincentivizes American innovation.

ii. The Human Cost

Consumers of counterfeit goods unknowingly contribute to international criminal organizations that deal in money laundering, child labor, human trafficking, and even terrorism. Counterfeiters often hire children, mistreat workers, and maintain deplorable working and living conditions. In the Chinese city of Guangzou, the

46. See Blakeny, supra note 36, para. 1.14 ("The costs to those businesses whose products are pirated and counterfeited include ... competitive disadvantage to those enterprises which free-ride on the research and development and marketing expenses of legitimate enterprises . . . .").

47. INT'L CHAMBER OF COMMERCE, supra note 45, at 15. These business risks are not confined to large corporations. Even "mom-and-pop" retailers struggle to compete with counterfeiters when consumers have the option of buying generic products from a legitimate store or "brand name" products for the same price from the next store over. Counterfeit Goods, Easy Cash for Criminals and Terrorists: Hearing Before the S. Comm. on Homeland Security and Governmental Affairs, 109th Cong. 5 (2005) (statement of Kris Buckner, President, Investigative Consultants).

48. INT'L CHAMBER OF COMMERCE, supra note 45, at 15.

49. Harper's Bazaar, Fakes are Never in Fashion: Numbers to Know, supra note 35.


51. NAT'L INTELLECTUAL PROP. LAW ENFORCEMENT COORDINATION COUNSEL, REPORT TO THE PRESIDENT AND CONGRESS ON COORDINATION OF INTELLECTUAL PROPERTY ENFORCEMENT AND PROTECTION 1 (2006).

52. Id.


54. Thomas, The Fake Trade: Counterfeiting is a Business Worth $600 Billion a Year—and Growing, supra note 27, at 72.

55. See Goodwin, supra note 22, at 54 (detailing the gruesome death of five teenage factory workers). For example, author Dana Thomas, while accompanying Thai authorities on a counterfeit assembly plant raid, recounted a story told to her by an investigator about a horrific scene that the investigator had witnessed during the course of another raid:
capital of counterfeit production and home of many clandestine factories that exist solely to produce counterfeit goods, many factory owners hire children under the age of sixteen to live on the premises with no adult supervision.\textsuperscript{56} Shifts may begin as early as 7:00 a.m. and sometimes last well into the next day.\textsuperscript{57} Child laborers work these shifts every day and sometimes get only one day off per year.\textsuperscript{58} If they receive a paycheck at all, it is worth only "a fraction of the [Chinese] minimum wage."\textsuperscript{59}

These inhumane working conditions have also found their way into America's own backyard. Many foreign counterfeit factory workers are sold into indentured servitude and smuggled from Asia into cities like New York and Los Angeles.\textsuperscript{60} This way, counterfeiters can import components of fake goods for later assembly by their domestic workforce, thereby avoiding U.S. Customs seizures at the border.\textsuperscript{61} Police raids of domestic sweatshops are often unsuccessful because the counterfeiters padlock doors to keep workers from escaping.\textsuperscript{62}

'I remember walking into an assembly plant in Thailand a couple years ago and seeing six or seven little children, all under ten years old, sitting on the floor assembling counterfeit leather handbags. . . . The owners had broken the children's legs and tied the lower leg to the thigh so the bones wouldn't mend' and did so 'because the children said they wanted to go outside and play.'


\textsuperscript{56} Thomas, The Fake Trade: Wanted for Stealing Childhoods, supra note 26, at 69–70. Harper's Bazaar vividly described the horrific story of Wang Yajuan, a Chinese child laborer in another city:

[Wang Yajuan] was working at a textile factory, near Shijiazhuang City, Hebei Province, when she was fourteen. Along with other children, she toiled at least twelve hours a day, seven days a week, and slept in a ramshackle factory dorm, unheated in the frigid winter. Exhausted after their long workday, Yajuan and her four roommates lit a primitive charcoal stove one night in December 2004 and went to sleep in the poorly ventilated room. In the morning they were found unconscious from inhaling charcoal fumes and declared dead. The factory owner ordered that the girls' bodies be sealed in coffins immediately and sent off for cremation. A later investigation revealed that at least two of the girls had still been alive when they were entombed.

Goodwin, supra note 22, at 54.

\textsuperscript{57} Goodwin, supra note 22, at 54.

\textsuperscript{58} Id.

\textsuperscript{59} Id.

\textsuperscript{60} Thomas, The Fake Trade: Wanted for Stealing Childhoods, supra note 26, at 70.

\textsuperscript{61} See Thomas, The Fake Trade: Counterfeiting is a Business Worth $600 Billion a Year—and Growing, supra note 27, at 72 ("Workers took generic items that may have been imported legally and sewed on fake logos and labels, turning the items into counterfeit branded goods.").

\textsuperscript{62} Thomas, If You Buy One of These Fake Bags, You Are Supporting Child Labor, Organized Crime, Even Terrorism . . . . , supra note 21, at 65.
Counterfeiters are known to be among the world's most hardened and ruthless criminals. Some are involved in common street gangs and use the profits from counterfeit sales to buy guns and drugs. Some are terrorist sympathizers who use their counterfeiting profits to support terrorist operations. In fact, counterfeiting is quickly "becoming the preferred method of funding for a number of terrorist groups," according to Ronald K. Noble, the Secretary General of Interpol. For this reason, some terrorist organizations even claim direct ownership of counterfeit enterprises. Specifically, Interpol has discovered counterfeit trade connections with Kosovo extremist groups, Chechen rebels, and even Al Qaeda. The FBI and Interpol have also uncovered evidence of a link between counterfeiting and Hezbollah.

66. Id. Alan C. Drewsen, Executive Director of the International Trademark Association, admits to shying away from the topic of terrorism at first. Robert Klar, The Fight Against Fakes, BRANDWEEK, June 27, 2009, http://www.brandweek.com/bw/content_display/news-and-features/direct/e35344418d676344f061e2b8a711119963e?pn=1. "But there have been enough cases that there does seem to be a link. What we're finding is that the business model for counterfeiting is better than the distribution of drugs. The profits are high, and the penalties are lower." Id.
67. Intellectual Property Crimes: Are Proceeds From Counterfeited Goods Funding Terrorism?: Hearing Before the H. Comm. on International Relations, 108th Cong. 13 (2003) (statement of Ronald K. Noble, Secretary General, Interpol). Concerns have been raised that the public may equate these findings to the post-9/11 rhetoric employed by anti-drug campaigns, which were largely dismissed as scare tactics dreamed up by the Bush Administration. See Counterfeit Goods, Easy Cash for Criminals and Terrorists: Hearing Before the S. Comm. On Homeland Security and Governmental Affairs, 109th Cong. 27 (2005) (statement of Matthew Levitt, Senior Fellow and Director of Terrorism Studies, The Washington Institute for Near East Policy) (explaining that the post-9/11 campaigns were "poorly received by the public and [ ] became a joke"). However, Mr. Noble's conclusions are based on files from Interpol, Interpol member states, right holders, manufacturers, and trade bodies, as well as open sources. Intellectual Property Crimes: Are Proceeds From Counterfeited Goods Funding Terrorism?: Hearing Before the H. Comm. on International Relations, 108th Cong. 13 (2003) (statement of Ronald K. Noble, Secretary General, Interpol). Interpol is an international police organization with 187 member countries. Interpol, About Interpol, http://www.interpol.int/public/icpo/default.asp (last visited Oct. 21, 2009).
Nevertheless, consumer demand for counterfeit goods endures. Canal Street, the heart of the Chinatown district in New York City, is perpetually swarmed with tourists eager to purchase souvenir knock-offs. Mild-mannered housewives across America continue to host Tupperware-style “purse parties,” unwittingly taking orders for contraband from their friends and neighbors. Anti-counterfeiting experts maintain that the most effective way to combat counterfeiting is through consumer education. Counterfeit watchdog Barbara Kolsun postulates that “if the woman buying a purse in Chinatown knew that it was probably made by children, . . . she might think twice about buying it.” In a 2007 survey of U.K. consumers, one British IP firm confirmed that almost eighty percent of consumers “would be deterred if they knew that sales help to fund criminal activity.”


73. See Thomas, The Fake Trade: Counterfeiting is a Business Worth $600 Billion a Year—and Growing, supra note 27, at 73 (“Most important, we need to spread the word on the devastating effects counterfeiting has on society today.”); Thomas, If You Buy One of These Fake Bags, You Are Supporting Child Labor, Organized Crime, Even Terrorism . . . , supra note 21, at 67 (“Perhaps the most effective way to stop counterfeiting is through educating those of us who love fashion and a bargain and are vulnerable to unscrupulous counterfeiters.”).

74. Thomas, If You Buy One of These Fake Bags, You Are Supporting Child Labor, Organized Crime, Even Terrorism . . . , supra note 21, at 67; see also id. at 65 (“If women were aware that [the production of] these bags means employing illegal labor, including children, I don’t think they would be having Tupperware-style parties to sell them,’ says Andy Spade, CEO and creative director of Kate Spade and Jack Spade.”) (alteration in original).

75. Davenport Lyons, supra note 32. Author and anti-counterfeiting advocate Dana Thomas attests that audience members at book-readings often tell her “they had no idea it was such a dark and dangerous world,” then “invariably swear that they will
B. Legal Authority

i. The TRIPS Agreement

The requirements established by the World Trade Organization’s Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) govern U.S. IP regulation. These requirements function as minimum standards, and Member countries are free to implement more restrictive measures. Part III of the Agreement concerns the enforcement of IP rights. While it focuses on internal enforcement measures aimed at stopping infringement at the point of production, Part III also recognizes the importance of enforcement measures taken at a Member country’s borders aimed at stopping infringing imports. Border measures provide for the participation of customs authorities and enable them to stop infringing goods at the point of entry, thereby preventing the release of such goods into free circulation.

Article 51 of Part III requires Member countries to adopt certain border enforcement procedures, which must at least apply to counterfeit trademark goods presented for importation. Member countries must designate a “competent authority,” either judicial or administrative, to authorize enforcement measures at the border. Procedures may be initiated either by application of the right holder or upon the designated authority’s own initiative. Either way, when customs authorities suspend the release of goods, both the importer and the right holder “shall be promptly notified of the suspension.”

The resulting border measures adopted by Member countries must conform to the provisions set out in Section 4 of Part III,

never knowingly buy another fake good.” Thomas, The Fake Trade: Counterfeiting is a Business Worth $600 Billion a Year—and Growing, supra note 27, at 72.


78. TRIPS, supra note 76, pt. III.


80. Id.

81. Id. The TRIPS Agreement defines “counterfeit trademark goods” as those “bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark.” TRIPS, supra note 76, pt. III, § 4, art. 51 n.14.

82. World Trade Organization, supra note 79.

83. TRIPS, supra note 76, art. 51.

84. Id. art. 58.

85. Id. art. 58(b).
including Article 59,86 which authorizes “competent authorities” to “order the destruction or disposal of infringing goods in accordance with the principles set out in Article 46.”87 Article 59 further stipulates that “[i]n regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances.88

Article 59 extends the principles of Article 46 (pertaining to civil remedies) to the context of border measures.89 Article 46 provides:

In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed . . . . In considering such requests, the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account. In regard to counterfeit goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.90

According to Professor Daniel Gervais, the last sentence in Article 46 establishes a general rule for the disposal of counterfeit goods: simply “de-trademarking” counterfeit goods is not permitted and does not constitute an “effective deterrent.”91 This general rule may only be broken in exceptional cases.92 Professor Gervais explains that “exceptional circumstances” would “need to be exceptional indeed to avoid a violation of the obligation to provide an effective deterrent.”93 The general rule, he argues, should only be broken in “specific cases of non-professional infringement with special

87. TRIPS, supra note 76, art. 59.
88. Id.
89. GERVAIS, supra note 77, para. 2.465, at 324–25; see also TRIPS, supra note 76, art. 59.
90. TRIPS, supra note 76, art. 46.
91. GERVAIS, supra note 77, para. 2.404, at 300.
92. Id.
('attenuating') circumstances."94 Otherwise, the infringing party, particularly professional counterfeiters, could simply acquire more infringing logos and attach them to the de-trademarked goods.95

Article 59, however, provides its own clause pertaining to the disposal of counterfeit trademark goods: "In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances."96 At first glance, the difference in the wording of Article 59 would seem to exclude the incorporation of the fourth sentence of Article 46.97 But the language in Article 59 pertains to the re-export or release of goods into a different customs procedure, while the language in Article 46 pertains to release into the channels of commerce, which applies to importation and domestic sale.98 Thus, the different sentences in each Article apply in different circumstances and do not contradict one another.99 Therefore, Article 59 incorporates all "principles set out in Article 46"100—including the general rule prohibiting the simple de-trademarking of counterfeit goods.

Part V governs any disputes between Member countries arising out of the TRIPS Agreement.101 Under the provisions set out in Article 64, a WTO Member may initiate a "violation complaint" invoking another Member's failure to carry out TRIPS obligations.102 During the first five years after the TRIPS Agreement entered into force, only violation complaints were permitted.103 Essentially, this required a showing of "direct conflict between provisions of a Member's laws and regulations and TRIPS, including an omission."104 Since January 1, 2000, however, Members may also initiate "non-

94. GERVAIS, supra note 77, para. 2.404, at 300.
95. Id.; see also supra note 61 (discussing how domestic workers re-attach logos to de-trademarked goods).
96. TRIPS, supra note 76, art. 59.
97. IP Measures Panel Report, supra note 86, para. 7.271 (noting the argument that "the second sentence of Article 59 constitutes a lex specialis that would exclude the incorporation of the fourth sentence of Article 46 into Article 59").
98. Id. para. 7.274.
99. Id.
100. Id. para. 7.270; see also Executive Summary of the Oral Statement of the United States at the First Substantive Meeting, China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights, § II, para. 24, WT/DS362/R (Jan. 26, 2009) (articulating the U.S. argument that Article 59 does not contain limiting language that would "selectively incorporate the obligations in Article 46.").
102. See GERVAIS, supra note 77, para. 2.495, at 341 (explaining that under Art. 64, a Member could invoke the "failure of another [WTO Member] to carry out its obligations under the agreement") (alteration in original) (internal quotation marks omitted).
103. Id.
104. Id.
violation complaints,” relying on “non-violation nullification or impairment and unavailability of benefits based on reasonable expectations.”105 This argument might apply, for example, where a Member’s laws and regulations conform to TRIPS obligations, yet the Member systematically refuses to apply those laws and regulations, thereby nullifying or impairing a benefit expected to accrue (whether directly or indirectly) under TRIPS.106

ii. U.S. Customs Duties

As a frontrunner in international IP rights enforcement,107 the U.S. has implemented measures that offer more protection for IP rights than the minimum standards prescribed by TRIPS. The U.S. has made border enforcement measures a priority, as many counterfeit goods sold within the U.S. are imports manufactured overseas.108 Consequently, when the CBP discovers goods bearing counterfeit marks,109 it has a statutory duty to seize the goods.110 Absent written consent from the trademark owner, the goods are then forfeited to the CBP.111 The CBP has a duty to provide notice to the trademark owner112 within thirty days of the seizure.113 For thirty days following this notification, the trademark owner may provide consent to importation or exportation of the goods, to entry of the goods on the condition that they be de-trademarked, or to some “other appropriate disposition.”114 If the trademark owner does not provide consent, the CBP must dispose of the goods in accordance with 19 U.S.C. § 1526(e) and 19 C.F.R. § 133.52(c).115

Under normal circumstances, the CBP must destroy the goods.116 In some circumstances, however, destruction of the goods is

105. Id.
106. Id.
107. Scafidi, supra note 9, supp.
109. A “counterfeit”, defined under the Lanham Act, is “a spurious mark, which is identical with, or substantially indistinguishable from, a registered mark.” 15 U.S.C. § 1127 (2009); see also 19 C.F.R. § 133.21(a) (2009) (“A 'counterfeit trademark' is a spurious trademark that is identical to, or substantially indistinguishable from, a registered trademark.”).
110. 19 U.S.C. § 1526(e) (2009); see also 19 C.F.R. § 133.21(b) (describing a corresponding regulatory duty).
111. 19 U.S.C. § 1526(e); 19 C.F.R. § 133.21(b).
112. 19 U.S.C. § 1526(e).
113. 19 C.F.R. § 133.21(c).
114. Id. § 133.21(e).
115. Id.
116. 19 U.S.C. § 1526(e); 19 C.F.R. § 133.52(c) (2009).
Statutory and regulatory duties do not require the CBP to destroy seized counterfeit goods when the following three prerequisites are met: (1) the goods are not unsafe and do not constitute a health hazard; (2) the CBP has obtained the trademark owner's written consent; and (3) the CBP has de-trademarked the goods where feasible. If all three prerequisites are satisfied, there are two alternatives to destruction. First, the CBP may deliver the goods to any government agency or charitable institution that establishes a need for them. If no government agency or charitable institution establishes a need for the goods within ninety days, the CBP may also sell the goods at a public auction. As long as the decision satisfies the statute and regulations, the choice of alternatives ultimately lies with the Executive Branch, acting either through the Secretary of the Treasury or through the Commissioner of Customs or his designee.

117. See 19 U.S.C. § 1526(e) (setting out conditions for alternative disposal methods); 19 C.F.R. § 133.52(c) (same).
118. 19 U.S.C. § 1526(e); 19 C.F.R. § 133.52(c).
119. 19 U.S.C. § 1526(e)(1)–(3); 19 C.F.R. § 133.52(c)(1)–(3).
120. 19 U.S.C. § 1526(e)(1)–(2); 19 C.F.R. § 133.52(c)(1)–(2).
121. 19 U.S.C. § 1526(e)(3); 19 C.F.R. § 133.52(c)(3).
iii. Emergency Authority

In the wake of Hurricane Katrina, the CBP skirted its normal duties when it distributed seized counterfeit goods in their original, trademark-infringing state without first obtaining the trademark owners' consent. While making donations in Jackson, Mississippi, a CBP official explained to reporters that under normal circumstances, the counterfeit items would have been destroyed; but "[u]nder statutory [sic] authority during these times of disaster our commissioner has the authority to waive that, in other words we don't have to go back to the trademark and say, can we have that, our commissioner can do that unilaterally [sic] during these times of difficulty." The CBP claimed this authority pursuant to 19 U.S.C. § 1318(b)(2), which states:

Notwithstanding any other provision of law, the Commissioner of Customs, when necessary to respond to a specific threat to human life or national interests, is authorized to close temporarily any Customs office or port of entry or take any other lesser action that may be necessary to respond to the specific threat.

CBP officials asserted that this emergency statute is triggered "when the [P]resident declares a state of emergency, as President Bush did for Hurricane Katrina." The President initially made an "emergency declaration" for certain areas of Louisiana on August 27, 2005, authorizing emergency FEMA assistance pursuant to the Stafford Act. Over the next few days, the President made similar declarations for areas of both Mississippi and Alabama. The President later made a formal proclamation of “National Emergency" as authorized by 50 U.S.C. § 1621, suspending provisions of the...
Davis-Beacon Act, which pertains to wage rate requirements for those mechanics and laborers employed under government contracts.\textsuperscript{131}

III. LEGAL IMPLICATIONS

A. Under TRIPS

The CBP's Katrina donations present a question as to the legality of government donations of seized counterfeit goods under provisions of the TRIPS Agreement. In January of 2008, the WTO's Dispute Settlement Body provided its answer to this question.\textsuperscript{132} Evaluating the similar Chinese Customs policy of donating seized counterfeit goods to Red Cross relief efforts, the WTO review panel determined that the Chinese donations policy was not inconsistent with TRIPS obligations.\textsuperscript{133} Because the Chinese donations to Red Cross relief efforts so closely mirrored the CBP's Katrina donations, the Panel's ruling on China's donations policies provides insight into how the WTO might analyze the U.S. donations under the TRIPS Agreement.

i. The WTO Panel Report

In its formal request for the establishment of a WTO review panel, the U.S. claimed that China's border measures did not provide Chinese Customs the authority to order destruction or disposal in accordance with the principles of TRIPS Article 46.\textsuperscript{134} As Article 59 incorporates the principles of Article 46, the U.S. argued that the measures were thus inconsistent with China's obligations under Article 59.\textsuperscript{135} Specifically with regard to the donation option, the U.S. argued that Customs' donation of seized goods to "public welfare

\textsuperscript{131} Proclamation No. 7924, 70 Fed. Reg. 54,227 (Sept. 13, 2005).
\textsuperscript{132} See IP Measures Panel Report, supra note 86, pt. VII.B.2(c)(vii) (considering the legality of China's donations "to social welfare bodies").
\textsuperscript{133} See id. para. 7.309.
\textsuperscript{135} Id.
organizations” under the measures adopted did not “provide Customs with the authority to dispose of the confiscated goods ‘outside the channels of commerce in such a manner as to avoid any harm caused to the right holder,’” as mandated by the first sentence of Article 46. The U.S. argument was not a per se condemnation of the donation of counterfeit goods, but instead questioned the legal structure of the measures because they did not provide Customs the discretion to determine that donation was inappropriate where circumstances indicated potential harm to the right holder.

Assuming that the donations constituted disposal “outside the channels of commerce” in accordance with the Article 46 principle, the U.S. listed several situations in which donations could harm the right holder. First, if the goods turned out to be defective or dangerous, the donations could subject right holders to unwarranted claims for defects. Even if the Chinese policies conditioned donation on a determination of suitability for public welfare purposes (which may eliminate defective or dangerous goods), the U.S. predicted that this condition would not prevent the donation of usable but lower-quality counterfeit products that could nonetheless harm the right holder’s reputation. Lastly, the U.S. argued that “nothing appears to prevent public welfare organizations from selling the infringing goods they receive [through donation], thus moving these


137. IP Measures Panel Report, supra note 86, paras. 7.287, 7.289. The legal structure of the Chinese border measures, the U.S. argued, set out a “hierarchy of requirements” for the disposition of infringing goods seized at the border and thus did not provide Chinese Customs the authority to order destruction or disposal in accordance with the principles of TRIPS Article 46. Request for the Establishment of the Panel by the United States, supra note 134, § II. Under the first step of this “compulsory hierarchy,” once Customs determines that goods are infringing, it must ascertain whether the goods may be used for the “public good.” Executive Summary of the Oral Statement of the United States at the First Substantive Meeting, supra note 100, paras. 18–19; Executive Summary of the First Written Submission of the United States, supra note 136, para. 52. If so, Customs donates the goods to a “public welfare organization,” or instead may allow the trademark owner to purchase the goods. Executive Summary of the Oral Statement of the United States at the First Substantive Meeting, supra note 100, para. 19; Executive Summary of the First Written Submission of the United States, supra note 136, para. 52. The U.S. argued that neither of these first step options satisfied the principles set out in Article 46.


139. Id. para. 186.

140. Executive Summary of the Rebuttal Submission of the United States, supra note 137, para. 49.
goods back into commerce.” The Panel evaluated each of these arguments individually.

a. Defective Goods

The Panel first evaluated the argument that where the goods seized were defective or dangerous, the Chinese border measures still required that the goods be donated. The U.S. presented no evidence to show that Chinese Customs actually donated defective, dangerous, or even sub-standard goods to charity organizations. The Panel noted that, to the contrary, Chinese Customs measures conditioned the availability of the donation option on a finding that the goods could be used for “social public welfare undertakings.” The Panel determined that this condition provided Customs a means of keeping defective and dangerous goods from being donated, and the U.S. had provided no evidence to contradict such a conclusion. As such, the Panel found that the U.S. failed to demonstrate that Chinese Customs “lack[ed] authority to donate goods to social welfare bodies in such a manner as to avoid any harm to the right holder caused by defective or dangerous goods.”

b. Harm to Reputation

The Panel next considered the argument that donations consisting of safe, yet lower-quality counterfeit goods could still harm the right holder’s reputation. The Panel referred back to its previous discussion of China’s argument that the Article 46 principle requiring that the manner of disposal “avoid” harm merely obligated Customs to “pay due regard to” the potential interests of right holders. The Panel rejected China’s interpretation, instead

141. Executive Summary of the First Written Submission of the United States, supra note 136, para. 186.
143. Id. para. 7.289.
144. Id. The U.S. did submit one newspaper article documenting a case of exploding cell phone batteries manufactured in China, but the Panel disregarded the article as irrelevant, as it contained no information linking the batteries to Customs donations. Id.
145. Id. para. 7.290.
146. Id. para. 7.291.
147. Id.
148. Id. pt. VII.B.2(c)(vii), paras. 7.286–7.324.
149. Id. para. 7.281; see also Executive Summary of the First Written Submission of China, China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights, para. 41, WT/DS362/R (Jan. 26, 2009) (arguing that “Customs has the authority to dispose of the infringing goods outside the open market while paying due regard to [the] interests of the right holders”).
defining "avoid" as "keep off, prevent; obviate." Furthermore, the Panel noted, the principle requires the method of disposal to avoid "any harm," as opposed to simply "harm" or "some harm." As such, the Panel found that "the manner of disposal must be designed in such a way as to prevent any harm occurring to the right holder."

However, the Panel then limited this finding by recalling that disposal outside the channels of commerce is an alternative to destruction under TRIPS. The fact that the negotiators of TRIPS did not prescribe a per se destruction rule thus implied to the Panel that "any inherent risk of harm due simply to the fact that the goods have not been completely destroyed is insufficient to disqualify a disposal method, as it would nullify the choice between disposal and destruction." In contrast, "more specific concerns linked to harm caused to the right holder" would remain a relevant consideration in the determination of this Article 46 principle. In its subsequent evaluation of the reputational harm caused by China's donations policy, the Panel sought "evidence of actual harm" for this showing.

The Panel stressed that harm to the right holder through disposal of goods outside the channels of commerce depends on the circumstances of disposal. In normal circumstances, the Panel acknowledged that counterfeit goods with "the trademark unlawfully affixed" (i.e., prior to de-trademarking) present a risk of confusion. The infringing mark may mislead consumers as to the origin of the goods, potentially resulting in lost sales or harm to the right holder's reputation in cases involving goods of sub-standard quality. Customs authorities may take steps to avoid these risks, such as de-trademarking the goods, affixing charitable endorsements on the goods, or exerting control over the use of the goods or the distribution methods.

150. IP Measures Panel Report, supra note 86, para. 7.281.
151. Id.
152. Id. (emphasis added). As the U.S. argued, "[t]he obligation is not to 'pay due regard' to the interests of a right holder and to tolerate intermittent or 'non-significant' harm. The standard requires avoiding any harm to the right holder." Executive Summary of the Rebuttal Submission of the United States, supra note 137, para. 44.
154. Id.
155. Id.
156. See id. para. 7.295 ("[E]vidence of actual harm caused to the right holder by the manner of disposal could be relevant in assessing whether the manner of disposal conforms to this principle.").
157. Id. para 7.284.
158. Id.
159. Id. paras. 7.284, 7.296.
160. China presented evidence that Customs had employed this practice for past donations. See id. para. 7.296 (providing an example where the Chinese Red Cross imprinted its seal on donated counterfeit clothing before distribution).
161. Id. para. 7.284.
Nonetheless, after comparing the first and final sentences of Article 46, the Panel concluded that de-trademarking was not necessarily required in this situation. The distinction rested in the Panel’s finding that the first sentence of Article 46 (requiring only that the disposal method “avoid any harm caused to the right holder”) pertains to disposal “outside the channels of commerce,” while the last sentence of Article 46 (“the general rule” that simply de-trademarking the counterfeit goods is insufficient) pertains to the release of counterfeit goods “into the channels of commerce.” Because the Panel considered donations to charities, whether the goods were meant for the charities’ own use or for charitable distribution, to be a method of disposal occurring outside the channels of commerce, the Panel found the general rule of Article 46’s last sentence inapplicable.

The Panel therefore did not “assume[] that the removal of the trademark [was] required (or insufficient)” for the donation option. Consent of the right holder, while valuable for this assessment (and recommended by the U.S. as a prerequisite to donation), was similarly not required by the Panel. If the determination of harm did not look to the circumstances of the disposal, the Panel noted that “any disposal outside the channels of commerce where persons could simply observe a counterfeit trademark would be presumed to cause harm to the right holder. This result is not contemplated by the terms of Article 46, as the possibility of observing the counterfeit trademark is incidental to the requisite authority not to destroy the trademark.”

Where a donation to a charity is an option, and the donation has the right-holder’s consent, this may be a socially beneficial disposition of infringing goods that also observes the principles of Article 46. On the other hand, allowing counterfeit goods to be used, even for ‘public good,’ can be harmful to a right holder in certain cases.

162. Id. para. 7.283.
163. See supra text accompanying note 91 (describing “the general rule”).
164. See IP Measures Panel Report, supra note 86, para. 7.283 (contrasting the first and fourth sentences of Article 46 and discussing the significance of the differences between the two).
165. See id. para. 7.279 (stating that the principle applying to disposal outside the channels of commerce indisputably applies to donations to charities “for their own use or for charitable distribution”).
166. See id. para. 7.283 (asserting that the last sentence references release into the channels of commerce, and that when goods are disposed of outside the channels of commerce trademark removal is not necessarily required).
167. Id.
168. See id. para. 7.284 n.266 (presenting the United States’ claim that obtaining the right holder’s consent “avoids any harm to the right holder”); Executive Summary of the First Written Submission of the United States, supra note 136, para. 53.
Accordingly, the failure of China's customs measures to require de-trademarking of donated counterfeit goods was not a conclusive factor in the Panel's decision.\textsuperscript{171}

Notwithstanding the harms caused to right holders in ordinary circumstances, the Panel found no evidence of harm in this case, emphasizing that "goods donated by Customs to the Red Cross are not distributed in ordinary circumstances."\textsuperscript{172} Specifically, the purpose and procedures of the Red Cross bore on the "manner" of disposal:

The Red Cross distributes donated goods itself, outside the channels of commerce, including in disaster relief projects, where it cannot simply be assumed that the recipients are misled as to the origin of the goods.\textsuperscript{173} The recipients do not choose the goods in the way that ordinary consumers do, nor can it be assumed that the recipients are potential consumers of the genuine goods.\textsuperscript{174} Consequently, the Panel found no evidence "that any harm has ever been caused, or is likely to be caused, to right holders' reputations" as a result of the donations.\textsuperscript{175}

c. Later Sales of Donated Goods

Lastly, the Panel addressed the concern that donation may result in later sale of the counterfeit goods.\textsuperscript{176} China argued that under the adopted measures, Customs had a legal obligation to ensure that donated goods did not re-enter the channels of commerce.\textsuperscript{177} As evidence of Customs' supervision of previous donations, China submitted a "Memorandum of Cooperation," which Customs had entered into with the Red Cross Society of China pursuant to previous donations.\textsuperscript{178} The U.S. argued in response that preventive measures did not demonstrate that the goods could not return to commerce.\textsuperscript{179}

\textsuperscript{170} \textit{Id.}
\textsuperscript{171} See \textit{id. paras. 7.296–7.297} ("The Panel has taken due note that nothing in the measures at issue obliges Customs or the social welfare bodies to remove counterfeit trademarks.").
\textsuperscript{172} \textit{Id. para. 7.297.}
\textsuperscript{173} In a footnote, the Panel acknowledged evidence provided by China that the Red Cross delivers donated goods in its own packaging. \textit{Id. para. 7.297 n.276.}
\textsuperscript{174} \textit{Id. para. 7.297.}
\textsuperscript{175} \textit{Id.} The Panel found it relevant that two internationally prominent trademark owners not only consented to the donations, but "actually participated in the distribution by the Red Cross of goods that infringed their rights, suggesting that they [did] not presume donation of infringing goods harms their reputation." \textit{Id.}
\textsuperscript{176} \textit{Id. pt. VII.B.2(c)(vii), paras. 7.286–7.324.}
\textsuperscript{177} \textit{Id. paras. 7.300–7.303.}
\textsuperscript{178} \textit{Id. para. 7.300.}
\textsuperscript{179} \textit{Id. para. 7.305.}
Later sale may occur in two situations: the charities might sell the donated goods in order to raise money for their own charitable purposes, or charitably distributed goods might "find their way back into the channels of commerce" (i.e., the recipients of the charitable distributions later sell the goods). In regards to the former situation, the Panel acknowledged that "the goods are not in fact disposed of outside the channels of commerce but into the channels of commerce." In regards to the latter situation, the Panel said that the post-donation re-entry of the goods into the channels of commerce "does not alter the fact that the goods were disposed of outside the channels of commerce, in the ordinary sense of 'disposal.'"

In either situation, the Panel concluded that Customs authorities are only obligated "to ensure that the manner in which counterfeit goods are disposed of outside the channels of commerce is designed in such a way that it will comply with the principle." The relevant focus of the Article 46 principle is on the manner of disposal, not the actual carrying-out of the disposal. As such, the Panel reasoned that Customs authorities should not be "held responsible for acts of the bodies carrying out the disposal that is beyond the authorized manner." Subsequent sales of donations, the Panel explained, are only relevant to the determination of whether the disposal outside the channels of commerce was carried out "in such a manner as to avoid any harm caused to the right holder," not to the determination of whether the disposal occurred inside or outside the channels of commerce.

The Panel found that TRIPS merely imposes the duty for Customs to carry out the necessary supervision of the disposal, which it accomplished through the use of its memorandum with the Red Cross. The U.S. pointed out that other charities may not be bound under the same donation agreement as the Red Cross, thus donations to charities other than the Red Cross might not be in accordance with Article 46 principles. However, the Panel responded that this argument was not convincing, because the U.S. had failed to demonstrate the possibility that other charities would not also be

180. Id. para. 7.279.
181. See id. para. 7.296 (explaining that the Red Cross's practice of imprinting its seal on counterfeit clothing was meant to prevent the post-distribution sale of the goods).
182. Id. para. 7.279 (first emphasis added).
183. Id.
184. Id. para. 7.280 (emphasis added).
185. Id.
186. Id.
187. Id. paras. 7.279–7.280.
188. Id. para. 7.312.
189. Id. para. 7.308.
held to requirements similar to those laid out in the Red Cross donation agreement. 190

d. Release into the Channels of Commerce

The Panel also evaluated another method of disposal employed by Chinese Customs: counterfeit goods auctions. 191 The resulting analysis of the Panel establishes a framework for assessing methods of disposal that release the goods into the channels of commerce under the last sentence of Article 46 and, therefore, is relevant to the discussion of donation to the extent that one may argue that donation constitutes release into the channels of commerce. Because this Note attempts to make such an argument, 192 a brief explanation of the Panel's findings will be useful.

First, the Panel determined that although Articles 46 and 59 seemingly authorize only two options for handling counterfeit goods (i.e., destruction or disposal outside the channels of commerce), the TRIPS Agreement did not bar resort to other remedies. 193 The phrasing in both Articles establishes obligations that certain authorities “shall have the authority” to order destruction or disposal outside the channels of commerce, but nothing in either Article indicates that these options must be exclusive. 194 The Panel explained that the obligation to “have” authority does not require authorities to exercise that authority in a particular way (unless otherwise specified). 195 Thus, the auction method is not necessarily inconsistent with TRIPS, even though it is not one of the two required methods. 196

However, the Panel noted that the TRIPS negotiators apparently still thought it necessary to stipulate in both Articles that authorities must not release “infringing” goods into the channels of commerce. 197 Perhaps the negotiators acknowledged that release of infringing goods may itself constitute an act of infringement. 198 But where disposal occurs in non-commercial circumstances or where the goods are altered such that they are no longer “infringing,” there would be

190. Id. para. 7.309.
191. Id. pt. VII.B.2(c)(ix), paras. 3.327–7.355.
192. See infra Part III.A.ii (presenting arguments regarding the application of TRIPS to the CBP's donations).
194. Id.
195. Id. para. 7.236. The Panel furthermore acknowledged that the obligation required authority to order destruction or disposal, thus Member countries could presumably still satisfy the obligation even where measures only provide for the authority to order one of the two options. Id. para. 7.246.
196. Id. para. 7.327.
197. Id. para. 7.242.
198. Id.
no infringement.\textsuperscript{199} For these reasons, the Panel theorized, the negotiators provided for disposal outside the channels (under the first sentence of Article 46) and set a minimum degree of alteration required for release into the channels (in the last sentence of Article 46).\textsuperscript{200}

The Panel explained that the auction method of disposal clearly constitutes release into the channels of commerce.\textsuperscript{201} This triggers the application of the Article 46 rule that “the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases.”\textsuperscript{202} China’s auction measures required de-trademarking (i.e., simple removal of the trademark unlawfully affixed) prior to auctioning counterfeit goods.\textsuperscript{203} However, China argued that the measures went beyond “simple removal” because they also provide the right holder an opportunity to comment before the auction.\textsuperscript{204} Thus, the question for the Panel was which actions push removal of the trademark past the definition of “simple,” rendering release into commerce an available option.\textsuperscript{205}

The Panel explained that removing the counterfeit trademark would convert the goods to non-infringing goods under the terms of TRIPS.\textsuperscript{206} Therefore, by requiring more than “simple removal,” the principle of the last sentence in Article 46 indicates that its purpose runs deeper than just the termination of the infringement at issue.\textsuperscript{207} Simply de-trademarking goods destined for the channels of commerce presents a relatively easy opportunity for the goods to be re-trademarked and thus converted back to an infringing state.\textsuperscript{208} For this reason, the Panel determined, the negotiators intended to “create an effective deterrent to further infringement,”\textsuperscript{209} including that of parties other than the original infringer.\textsuperscript{210} Thus, the Panel held that “[r]emoval of the trademark is not ‘simple’ if the state of the goods is

\textsuperscript{199} Id.
\textsuperscript{200} Id.
\textsuperscript{201} See id. para. 7.327 (“[I]t is undisputed that auction is not a form of disposal outside the channels of commerce.”).
\textsuperscript{202} See id. para. 7.359–7.362 (quoting the fourth sentence of Article 46 and concluding that it applies to the auction method of disposal).
\textsuperscript{203} IP Measures Panel Report, supra note 86, para. 7.366.
\textsuperscript{204} Id. para. 7.368.
\textsuperscript{205} See id. paras. 7.370–7.371 (discussing the meaning of “simple removal”). The Panel defined “simple” as “with nothing added; unqualified; neither more nor less than; mere, pure.” Id. para. 7.369 (quoting NEW SHORTER OXFORD ENGLISH DICTIONARY (1993)).
\textsuperscript{206} Id. para. 7.372.
\textsuperscript{207} Id.
\textsuperscript{208} Id. para. 7.373. The Panel further noted that counterfeit goods are usually designed to imitate the overall appearance of the genuine good such that even post-de-trademarking, the goods may still be so similar that there is a heightened risk that they will be re-trademarked and sold. Id. para. 7.374.
\textsuperscript{209} Id. para. 7.374 (emphasis added).
\textsuperscript{210} Id. para. 7.384.
altered sufficiently to deter further infringement," the state of the goods being the relevant focus.211

As the Chinese Customs measures did not alter the state of the goods beyond simple de-trademarking, the Panel needed only to consider whether the "exceptional cases" language of Article 46 applied.212 In regards to this assessment, the United States argued that the ordinary meaning of "exceptional" suggested not simply a small percentage of cases but circumstances that are "unusual or special."213 The Panel added that the determination of whether a case is exceptional must be guided by the Article's purpose: "to create an effective deterrent to infringement."214 Simply focusing on the number of cases for the determination would suggest a degree of tolerance for infringement.215 In conclusion, the Panel articulated that "such cases must be narrowly circumscribed" and application "must be rare, lest the so-called exception become the rule, or at least ordinary."216

ii. Application to the CBP's Donations

The findings of the WTO Panel Report described above provide a clear indication that the same Panel would most likely find acceptable the donations of U.S. Customs to the Hurricane Katrina relief effort.217 However, the WTO Panel may have wrongly interpreted the principles of Article 46 as applied to charitable donations of counterfeit goods. First, the donations method could easily be classified as release into the channels of commerce, which requires more than simple de-trademarking of the goods. Additionally, even if donation is considered disposal outside the channels of commerce as the Panel determined, authorities must still avoid all harm caused to right holders. By failing to make the

211. Id. para. 7.375 (citing TRIPS, supra note 76, art. 46). See also id. para. 7.377.
212. Id. paras. 7.385–7.386.
213. Id. para. 7.387.
214. Id. para. 7.391 (quoting TRIPS, supra note 76, art. 46). The example offered by the Panel involved "an innocent importer who has been deceived into buying a shipment of counterfeit goods, who has no means of recourse against the exporter and who has no means of reaffixing counterfeit trademarks to the goods." Id.
215. Id. para. 7.392.
216. Id. para. 7.391.
217. The donations are largely indistinguishable from the Chinese donations. Just like the Chinese donations, the CBP similarly donated the counterfeit goods to the Red Cross for use in natural disaster relief without requiring consent of the trademark holders and without first de-trademarking. The only material difference is that prior to distribution, the Chinese Red Cross affixed its seal to the counterfeit goods donated. See id. para. 7.296 ("Whilst the evidence shows that, in one case, the Red Cross imprinted its seal on a batch of donated infringing clothes, apparently to prevent the goods being sold after distribution . . . ").
slightest effort to de-trademark the goods or gain consent of the right holders, the CBP arguably failed in this obligation.

a. Release into the Channels of Commerce

Government donations of counterfeit goods may reasonably be interpreted as a "release of the goods into the channels of commerce," which would trigger the operation of the last sentence of Article 46. The donation method fits under the plain reading of "release of the goods into the channels of commerce." By handing out counterfeits directly to consumers, the CBP is necessarily injecting those goods into the channels of commerce. The very presence of these unaltered goods in the public eye could affect sales for trademark holders, as consumers of luxury goods may refuse to pay top dollar for goods associated with "shelter chic." Donations would thus affect commerce and bring the method within the purview of the broad definition of "commerce" preferred by the United States government.

In addition to indirectly affecting commerce, government donations could reenter the stream of commerce. The International AntiCounterfeiting Coalition, in its 2005 recommendations to the United States Trade Representative, pointed out that "[i]t is not uncommon for counterfeit goods donated to charity . . . to reenter the stream of commerce as they can easily be repurchased by the infringers and leave brand owners right back where they started." Even assuming the original infringer will lose track of the goods, Article 46 has been interpreted to require deterring "further infringement" altogether, which encompasses infringement by other parties. The basis for this interpretation is the reality that counterfeit goods have an extremely high value in the marketplace, as designer marks allow for "significant market premium[s]." It is therefore not unforeseeable that other parties might seek out the recipients of the donations, perhaps by simply waiting outside distribution areas (e.g., in this case, the Houston Astrodome), and attempt to purchase the goods. Given mounting evidence that

218. See Scafidi, supra note 9, supp ("Very few corporations have spent millions in advertising only to be associated with 'shelter chic.'").


221. See supra text accompanying notes 207–09 (discussing the Panel's conclusion that the negotiators or TRIPS were concerned with further infringement).

222. IP Measures Panel Report, supra note 86, para. 7.382.
common street gangs are becoming increasingly involved in counterfeit sales, this is particularly conceivable.

The possibility that donation recipients might sell the goods (either to infringers or to consumers directly) purely by their own volition is also foreseeable. The donation of counterfeit goods, in their infringing state, to victims of natural disasters places highly valuable goods in the hands of people who have lost many, if not all, of their possessions. Under these circumstances, it would almost be unreasonable for the recipients not to attempt to sell them for their highest market value. Groups like the Red Cross have proven incapable of preventing recipient misuse of government donations.

Nor, frankly, should they be burdened with that responsibility.

If CBP donations are characterized as a release into the channels of commerce, TRIPS would absolutely require de-trademarking prior to donation. Still, de-trademarking may not render the donations consistent with TRIPS. Customs would be obligated to sufficiently alter the goods beyond simple de-trademarking to effectively deter further infringement. Unless the case is exceptional, this may require alteration such that the overall appearance of the good does not closely resemble the genuine good.

The U.S. may argue that the CBP's Katrina donations fall under the provision allowing donation after simple de-trademarking for exceptional cases. But under the circumstances, they almost certainly would not. The CBP invoked the authority to make the donations under an emergency statute, which allows for Customs to waive certain duties once the President deems the situation an emergency or disaster. However, these "state of emergency" cases occur often in the United States. For Hurricane Katrina relief specifically, the President extended the emergency characterization a

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225. See TRIPS, supra note 76, art. 46 ("In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.").

226. See supra text accompanying note 211 (discussing what constitutes sufficient alteration of counterfeit goods).


228. See supra Part II.B.iii (discussing the CBP's actions in responding to Hurricane Katrina under the relevant emergency statute).
full year after the event.\textsuperscript{229} In fact, the Declaration of National Emergency pertaining to the threat of terrorism has been continuously extended from September of 2001 until today.\textsuperscript{230} The United States is, in effect, under a continuous "state of emergency." Such "emergency" cases cannot be "narrowly circumscribed," and thus should not trigger the exception to the general rule set out in the last sentence of Article 46.\textsuperscript{231} CBP donations invoking the "exceptional cases" clause of Article 46 put the so-called exception in danger of becoming "the rule, or at least ordinary."\textsuperscript{232}

b. Disposal Outside the Channels of Commerce

Even under the Panel's interpretation, which renders donations a method of disposal outside the channels of commerce, the CBP nonetheless failed in its obligations under the first sentence of Article 46. As explained by the Panel, disposal outside the channel of commerce must be accomplished in a manner that avoids any harm to the right holder, not simply one that pays "due regard to" the interests of right holders.\textsuperscript{233} The Panel considered the "possibility of observing the trademark incidental to the requisite authority not to destroy the goods,"\textsuperscript{234} but this clearly is not the case. Where goods are not destroyed, de-trademarking will most likely be feasible, and where it is not feasible, other methods of obscuring the trademark (e.g., affixing charitable endorsements over the mark) may be appropriate. In any case, the possibility of the public observing the counterfeit trademark is certainly not "incidental" to non-destruction.

The obligation to prevent any harm to the right holder mandates that Customs comply with the minimum alteration requirement prior to the distribution of counterfeit goods.\textsuperscript{235} Where the infringing trademark is left unaltered, the donated goods will forever be associated with the trademark owner. Although the WTO Panel


\textsuperscript{230} Continuation of the National Emergency with Respect to Certain Terrorist Attacks, 73 Fed. Reg. 51,211 (Aug. 28, 2008) (extending national emergency status for an additional year).

\textsuperscript{231} See supra Part III.A.i (discussing what constitutes an "exceptional case").

\textsuperscript{232} See IP Measures Panel Report, supra note 86, para. 7.391 ("Even when narrowly circumscribed, application of the relevant provision must be rare, lest the so-called exception become the rule, or at least ordinary.").

\textsuperscript{233} See supra text accompanying notes 149–51 (interpreting the avoidance of harm requirement).

\textsuperscript{234} IP Measures Panel Report, supra note 86, para. 7.284.

\textsuperscript{235} It is important to note that the WTO Panel did not mandate that Customs comply with the minimum alteration requirement prior to the distribution of counterfeit goods. See id. para. 7.284 ("Practical requirements, such as removal of the trademark, affixation of a charitable endorsement or controls over the use of goods or distribution methods, may avoid confusion.").
determined that China’s suitability condition was sufficient to prevent potentially dangerous or defective goods from being donated, there is no guarantee that such conditions will filter out every dangerous or defective good. This renders the trademark owner vulnerable to any product liability suits resulting from government donations.\textsuperscript{236}

The additional harm to the right holder’s reputation associated with donation, remote as it may have seemed to the WTO Panel, is not unforeseeable. Even where the recipients of the goods understand that the goods are not linked to the genuine source, the fact that consumers will see the goods worn by the recipients with their infringing marks intact is likely to cause confusion.\textsuperscript{237} Where the counterfeit goods are of lower quality than their legitimate counterparts, this harms the reputation of the trademark owner with potential customers.\textsuperscript{238}

Yet even where the quality is satisfactory, the potential for harm still exists. Circulation of counterfeit items to charitable institutions may make the goods less desirable to luxury consumers, regardless of the quality of the counterfeit items. The value of luxury goods is not simply in their quality, but also in their nature as status symbols.\textsuperscript{239} A consumer who spends $1,500 on a designer handbag, for example, is making an investment in a status symbol. The consumer makes this purchase with the expectation that it will reflect positively on her perceived level of taste.\textsuperscript{240} This requires a certain level of trust that

\begin{itemize}
\item \textsuperscript{236} Although most claims will most likely be dismissed, the trademark owner will nevertheless sustain legal costs for each product liability claim arising from government donations. \textit{See} Blakeny, \textit{supra} note 36, para. 1.14.

\item \textsuperscript{237} Traditional trademark law requires plaintiffs to show the “likelihood of confusion among consumers” as to the source of a good for a successful trademark infringement claim. \textsc{Herbert Hoven camp}, \textsc{Mark D. Janis} \& \textsc{Mark A. Lemley}, \textsc{IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law} § 2.4c1 (Supp. 2008). Here, the likelihood of confusion is significant because many consumers cannot tell the difference between counterfeit and authentic luxury goods. \textit{See} \textsc{Davenport Lyons}, \textit{Counterfeiting Luxury: Exposing the Myths} 13 (2d ed. June 2007) (“Many consumers are being duped: 31\% of fake buyers have bought a counterfeit item, thinking that it was the real thing. In fact, only 17\% of consumers are confident that they can tell the difference between a counterfeit and the genuine item.”).

\item \textsuperscript{238} \textit{See supra} Part II.A (describing the costs of counterfeits to the trademark holder).

\item \textsuperscript{239} \textit{See} \textsc{Jean M. Twenge} \& \textsc{W. Keith Campbell}, \textit{Living in the Age of Entitlement: The Narcissism Epidemic} 160 (2009) (explaining that consumers today desire products that “confer status and importance”).

\item \textsuperscript{240} \textit{See supra} note 42 (explaining that consumers want their purchases to convey a “desirable image or lifestyle”).
\end{itemize}
the brand will maintain its strength and exclusivity (and thus, that the handbag will maintain its status level for years to come). 241

To build that level of trust, luxury brands strive to maintain strict control over the distribution of their products, limiting authorized retailers to well-respected boutiques, luxury department stores, and other exclusive dealers. 242 But when counterfeit versions of their products exist, brands have very little control over the channels of distribution of products bearing their name. Where counterfeit circulation is pervasive, "even the real McCoy looks fake," 243 thus decreasing its value as a desirable status symbol and consequently resulting in a loss of sales to the trademark owner. 244 Luxury consumers are suddenly much less willing to spend $1,500 per handbag after they see tourists buying handbags with the same labels out of plastic garbage bags on Canal Street, 245 and they are likely to have the same reaction after seeing the handbags distributed to hurricane victims on the evening news.

Under the circumstances of the Hurricane Katrina donations, the CBP could have taken various steps to avoid harm to the affected trademark owners. De-trademarking and other options, such as affixation of Red Cross endorsement stamps, would have significantly reduced the likelihood that the goods distributed would be associated with the affected trademark owner. These alteration efforts could have been accomplished through a contract with the Red Cross or even voluntary efforts of CBP employees. 246 Because these options were likely feasible, the CBP breached its obligation to avoid harm to

241. This reflects reasonable consumer behavior. In making a significant purchase, the consumer's belief in the sustainability of the brand's image allows her to spend money with the confidence that she is making a sound investment.


243. Skenazy, supra note 72. As Ms. Skenazy asserts, "I see a lady with a Hermes scarf, and unless it's [a celebrity], I just assume she got it for 10 bucks." Id.


245. See id. (noting that counterfeit handbags are commonly sold out of black plastic garbage bags on Canal Street). The argument that consumers could easily be turned off by such an experience is bolstered by the reality that the value of luxury goods depends on a delicate balance of social cues. See Vickers & Renand, supra note 242, at 473 ("[T]he primary value of luxury goods is psychological, and their consumption is dependent on a distinctive mix of social and individual cues.").

246. See Press Release, U.S. Customs Serv., Customs Makes Donations to Local Non-Profit Entities, supra note 122 (describing an instance where CBP employees volunteered their time to de-trademark donated toys).
the right holders under the first sentence of Article 46 of the TRIPS Agreement.

B. Under U.S. Law

The CBP's donations may not have been authorized under U.S. law. It is first worth mentioning that at the time the CBP distributed the donations, the President had not yet formally declared a "National Emergency," which is arguably required to trigger the statute authorizing emergency actions by Customs officials. President Bush finally made such a proclamation on September 8, 2005. However, this proclamation only suspended provisions of the Davis-Beacon Act, which pertains to wage rate requirements for those mechanics and laborers employed under government contracts. This did not clearly authorize the CBP's donations.

Admittedly, a "National Emergency" proclamation may not have been required under 19 U.S.C. § 1318(b)(2) (i.e., the statute invoked by the CBP) as it is required under the preceding subsection, 19 U.S.C. § 1318(b)(1). However, even assuming the relevant provision does not require a formal proclamation of "National Emergency" to trigger the authority, 19 U.S.C. § 1318(b)(2) does not clearly authorize the type of action the CBP employed in making the Katrina donations. The statute authorizes the Commissioner of Customs, "when necessary to respond to a specific threat to human life or national interests," to "close temporarily any Customs office or

247. See Proclamation No. 7924, 70 Fed. Reg. 54,227 (Sept. 13, 2005) (documenting the proclamation, which occurred on Sept. 8, 2005). Interestingly enough, the CBO made the statement invoking the emergency statute a few days prior to the president's proclamation. See Seper, supra note 24 (referring to statements made by the CBO on September 6, 2005, two days prior to the official presidential proclamation).

248. See supra Part II.B.iii (providing a discussion of how to trigger the statute authorizing emergency actions by Customs officials).


250. Id.


Notwithstanding any other provision of law, the Commissioner of Customs, when necessary to respond to a specific threat to human life or national interests, is authorized to close temporarily any Customs office or port of entry or take any other lesser action that may be necessary to respond to the specific threat.

with § 1318(b)(1)

Notwithstanding any other provision of law, the Secretary of the Treasury, when necessary to respond to a national emergency declared under the National Emergencies Act . . . or to a specific threat to human life or national interests, is authorized to . . . [e]liminate, consolidate, or relocate any office or port of entry of the Customs Service.
port of entry or take any other lesser action that may be necessary to respond to the specific threat." Arguably, the donation of counterfeit goods in this case did not respond to a specific threat to human life or national interests. An extra set of clothing, although much appreciated, may not be necessary to maintain a human life. And the threat, as explained above, had not yet been extended to the level of "national interests."

Additionally, there is no indication that the CBP’s response in these circumstances was the type of action contemplated by the legislature in drafting this statute. There appears to be no evidence that this statute has ever been invoked in this manner. In fact, the statute was additionally invoked to create ad hoc Customs policies for more efficient international assistance, by way of allowing the release of embargoed safeguard goods for donation to Katrina relief efforts. Given that embargoed goods are in many aspects different from counterfeit goods previously seized by Customs, the CBP’s use of the same provision for two substantively distinct actions suggests that one of the two actions is not in fact authorized by the statute.

IV. POLICY IMPLICATIONS: SENDING MIXED SIGNALS

In addition to their questionable legality, the CBP’s actions may have also undercut the U.S. position as the champion of IP rights enforcement. The U.S. has built its strong pro-IP reputation in part by "exerting political pressure against nations that make knockoffs, demanding raids on factories and warehouses, and

252. § 1318(b)(2).
253. See § 1318(b) (requiring that the threat reach the level of "national interests" before a state of emergency can be declared).
254. The Author found no case in which the CBP invoked this statute in order to make donations of infringing goods and avoid statutory duties to rights holders.
255. See, e.g., Memorandum from Vera Adams, Executive Dir., Trade Compliance & Facilitation Office of Field Operations, to Customs & Border Prot.'s Directors of Field Operations 2 (Sept. 29, 2005), available at http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/textiles/tbts/TBT2005/tbt_05_024_01.ckt/tbt_05_024_01.doc (providing for such policies governing "embargoed China safeguard merchandise" and stating that § 1318(b) "allow[s] for the importation of merchandise for humanitarian purposes without entry and without payment of duty, taxes, or fees"); cf. U.S. Quiet on Lowering Duties for Hurricane Relief Materials, INSIDE U.S. TRADE., Sept. 16, 2005, at 1 (explaining that the Bush Administration could pursue this option in order to lower "tariffs and trade remedy duties on imports of lumber, cement and steel in order to ensure U.S. supplies of these materials are available to help with reconstruction efforts in areas devastated by Hurricane Katrina").
256. See Valentin Povarchuk, Jurisdiction to Challenge Seizure and Destruction of Counterfeit Merchandise, 3 J. INTELL. PROP. L. & PRAC. 554, 558 (2008) (discussing counterfeit goods and arguing that their "seizure ... does not constitute an embargo").
257. See Scafidi, supra note 9, supp. (arguing that the donation policy "undercut[] the U.S. position on IP protection").
applauding the mass destruction of seized goods.” In 2008, President George W. Bush signed the PRO-IP Act into law, which increased penalties for counterfeiting, granted state and local law enforcement programs up to $25 million annually to help develop anticyterfeiting teams within the next five years, and provided for the appointment of a White House IP coordinator. The Department of Justice has also made anticyterfeiting “a major law enforcement priority.” Yet faced with the devastation of Hurricane Katrina and the stiff criticism of the Bush Administration’s response to the tragedy, the federal government abandoned its hard-line stance and shamelessly doled out counterfeits to its citizens. Unfortunately, these messages translate to both U.S. citizens and the global community.

Failing to maintain a consistent stance on IP enforcement could mean major consequences for the U.S. government. Professor Jeremy Phillips explains that by making light of IP rights infringement, national governments invite certain undesirable consequences: “embarrassing public criticism for failure to protect against . . . legitimate commercial interests, including not merely those of intellectual property owners but the distribution, wholesale, and retail channels through which legitimate goods are placed before the consumer;” “the tolerance of a criminal culture in which organized crime and money-laundering thrive;” and “the risk of the government of another country initiating a complaint procedure with the World Trade Organization.”

A. The Message to U.S. Citizens

The government’s donation of seized counterfeit goods sends mixed messages to its citizenry. In its condemnation of counterfeiting, the federal government has practically characterized buying a knock-off as an act of aiding and abetting terrorists.

258. Id.
261. Gorman, supra note 2.
262. See Scafidi, supra note 9, supp. (describing the federal government’s retreat from its hard-line stance on counterfeit products in the wake of Hurricane Katrina).
263. Phillips, supra note 42, para. 29.20.
264. See, e.g., Thomas, If You Buy One of These Fake Bags, You Are Supporting Child Labor, Organized Crime, Even Terrorism . . . ., supra note 21, at 66 (“Sales of fake goods on the streets of New York are thought by some U.S. intelligence agencies to have partially financed the bombing of the World Trade Center in 1993 and may have even contributed to the September 11 attacks.”).
Consumers are understandably skeptical of this view.\textsuperscript{265} It is difficult to believe that counterfeit designer goods pose a serious threat to national security, especially when "the government is handing out fakes for free."\textsuperscript{266}

Despite the mixed signals sent by the CBP's donations in the wake of Hurricane Katrina, the government surprisingly transformed the matter into a positive public relations opportunity. In a statement to reporters, one CBP official characterized the donations as "a humanitarian effort on the government's part."\textsuperscript{267} The White House even listed the donations in its report entitled \textit{The Federal Response to Hurricane Katrina: Lessons Learned} under the heading "What Went Right."\textsuperscript{268} As Professor Susan Scafidi explains, this confusing strategy of "seizing with one hand and redistribute with the other"\textsuperscript{269} may have nevertheless triggered a "setback to the public's already tenuous belief in the evils of counterfeit goods."\textsuperscript{270}

\section*{B. The Global Message}

These mixed signals resonate on a global level as well.\textsuperscript{271} Professor Scafidi compares the CBP's donations to the Bush Administration's similar policy change during the 2001 anthrax bioterrorism attacks.\textsuperscript{272} Prior to that time, the U.S. had taken a hard-line stance in protecting drug patents.\textsuperscript{273} Arguing that drug companies need to be assured of the money from patents to advance research for new products, the U.S. planned to file a complaint against Brazil for allowing the production of generic AIDS treatment drugs.\textsuperscript{274} The U.S. even condemned proposed South African legislation permitting the alternative production of patented drugs in times of national emergency.\textsuperscript{275}

When faced with threats of bioterrorism, however, the U.S. deviated slightly from its hard-line approach. Fearing an anthrax outbreak, the government considered invoking national emergency authority to overturn Bayer's patent on ciprofloxacin (an agent used
to treat anthrax inhalation). These deliberations quickly prompted criticism from interest groups that had previously campaigned for generic anti-AIDS drugs. Sophia Tickell, a senior policy advisor at Oxfam, argued: "If the U.S. government decides to do this, it would stand accused of hypocrisy, or at least double standards . . . . You can't apply one thing to developing countries and then when you find you have your own problems, become willing to waive the rules." The U.S. policy choice implicitly "devalue[d] other nations' suffering in comparison to [its] own."

More recently, the U.S. government sent an indisputably mixed signal to the international community when it formally requested that the WTO condemn China's policies for the donation of seized counterfeit goods. As discussed previously, these donations closely resembled the CBP's Katrina donations. In contrast to the U.S. donations, however, there was evidence that in one case the Chinese Red Cross took the additional step of imprinting its seal on counterfeit clothing prior to distribution to prevent recipients from later selling the clothes. Even despite this modification, the U.S. maintained that charitable donations of counterfeit goods could only be acceptable with the trademark owner's consent, which the Chinese policies did not require. In effect, the U.S. argued that the Chinese equivalent of the CBP's Katrina donations violated the TRIPS Agreement, again sending mixed signals to the international community and potentially exposing the U.S. government's own noncompliance with the TRIPS Agreement.

V. RECOMMENDATIONS

At the very minimum, the CBP should de-trademark goods prior to future donations. Despite the WTO Panel's conclusion, de-trademarking is a prerequisite for donation regardless of whether one interprets donation as a release within or outside the channels of commerce. Even with regard to disposal outside the channels of commerce, harm to the right holder is inevitable if the goods are not de-trademarked. Under the relevant TRIPS provisions, Customs must do everything in its power to avoid any harm to the right holder.

276. Id.
277. Id. (quoting Sophia Tickell, Senior Policy Advisor, Oxfam).
278. Scafidi, supra note 9, supp.
279. See Request for the Establishment of the Panel by the United States, supra note 134, § II (explaining the U.S. position that the Chinese donations violated China's TRIPS obligations).
280. See supra note 217 (comparing the donations).
281. Id.
282. See supra note 168 and accompanying text (describing the consent prerequisite proposed by the U.S.).
Where de-trademarking is not feasible, the CBP should resort to other options, such as requiring affixation of the Red Cross (or other charity) seal over the infringing mark.

In order to avoid violating TRIPS under interpretations differing from that of the WTO Panel described above, the CBP should also (outside of situations triggering the "exceptional case" provision of Article 46) alter the goods to the point where they no longer look like imitations of legitimate goods. And in order for Customs to get away with simply de-trademarking under exceptional circumstances, the legislature could amend the emergency statute to provide clear emergency authorization of CBP donations—preferably one that is not constantly triggered by the President's frequent emergency declarations.

Of course, all of the above steps might be avoided if the CBP opts to simply contact the right holder to gain consent prior to a donation. Right holders are likely to provide consent in these situations, as they provide valuable public relations opportunities for the brands. However, it must be remembered that the WTO Panel interpreted the purpose of Article 46 to go beyond preventing the infringement of the specific trademark holder's rights and to instead direct the disposal method to deter future infringement. This suggests that the consent of the right holder is by itself insufficient to allow donating counterfeit goods in their infringing state.

Additionally, the government should not neglect the social impact of seizing counterfeit goods, which are likely the product of foreign slave labor conditions or fuel for terrorist organizations, and then redirecting them to alleviate the suffering of victims in the United States. The U.S. government could have avoided the negative international policy implications by resorting to alternative relief practices. The U.S. might find that foregoing all CBP donations is the most viable option for the future.

VI. CONCLUSION

Government donation of seized counterfeit goods, under the circumstances of the CBP's Katrina donations, presents significant
policy and legal implications. If the U.S. wishes to remain on its IP high horse, it should avoid unnecessarily breaking the rules during difficult times. On the other hand, common decency suggests that the rules are made to be broken when it comes down to clothing victims during times of emergency. This Note does not propose that IP rights should be valued over the wellbeing of U.S. citizens. It merely argues that the rights need not be sacrificed altogether so that the government can make up for lost time. Due to the Bush Administration’s slow response to Hurricane Katrina and the resulting criticism, there was clearly pressure for the government to do something. By making these donations without so much as de-trademarking the goods or asking for consent, the government took an imprudent route to appeasing its critics that should be avoided in the future.

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